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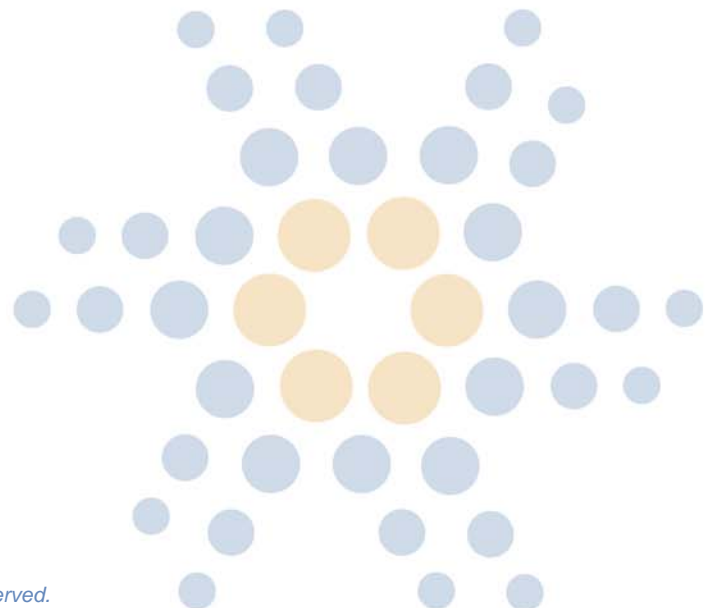
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WHITE PAPER



How to Manage Word-of-Mouth?

Managing communication in a mosh pit





Executive summary

Word-of-mouth information exerts significant influence over consumers' decision making—especially in a world of relentless marketing. In this paper, we discuss the limitations of traditional marketing activities, the power of word-of-mouth information on consumer behavior, how word-of-mouth is communicated through formal and informal social networks and how managers can exert a powerful influence over what their customers say about their products and services to the people they know. Understanding how word-of-mouth works, and how it can be directly influenced, gives managers strategic insight that can be leveraged for competitive advantage.

The Marketing Mosh Pit

Today, marketers clamor relentlessly for consumers' attention. The average American confronts an estimated 254 advertising messages each day, up 25 percent since the 1970s. In the past decade, the time devoted to commercials during a typical hour of television grew 50 percent (Gladwell, 2002). One source estimates that half a million billboards exist in the U.S., with as many as 15,000 being added each year (Scenic America, 2005). At the same time, the \$20 billion radio industry seeks new ways to make its voice heard over the rising noise of satellite radio and online music services (Zeidler, 2005). Thousands of magazines cram newsstands, millions of websites clutter the Internet, and hundreds of television channels crowd cable lineups.

The din of advertising makes it increasingly difficult for any single message to stick. In 1992, Coca-Cola spent \$33 million to sponsor the Summer Olympics. Despite a tremendous advertising effort, only about 12 percent of television viewers identified Coca-Cola as the official soft drink of the Olympics, and five percent reported that Pepsi sponsored the Olympics (Gladwell, 2002). According to another study, whenever at least four different 15-second advertisements appear in a two and one-half minute commercial break, the effectiveness of any one of the messages drops to nearly zero (Gladwell, 2002). Nevertheless, advertising spending in the U.S. continues to grow (Stuart, 2005).



Even with increased budgets, can marketing departments force consumers to pay more attention? Experts think not. An explosion of advertising methods, coupled with a saturation of promotional messages, compels consumers to disregard, screen, and ignore traditional forms of marketing. “It’s hard to believe that people are really watching advertisements as closely as they did before,” writes one authority (Gladwell, 2002). Explains another, “Consumers are being forced to be more selective about which messages they attend to. Advertising for the consumer is a mosh pit” (Cafferky, 2004).

In this increasingly competitive marketing environment, managers need to tap into, and learn how to effect, consumers through other information channels. This paper seeks to explore the significance of word-of-mouth as a marketing concept, and how managers can harness it to improve the effectiveness of their communications activities. We know that as consumer immunity builds in response to unmitigated advertising, the importance of word-of-mouth information about products and services intensifies (Keller, 2003). This paper concludes by showing how intelligent market research can track changes in the word-of-mouth “buzz” that surrounds a particular product or service, empowering managers with a tool to control what consumers say. The understanding such research brings can be used to support more effective marketing efforts and a business’ operational and communications strategies.

The Grapevine

From even the most basic biological perspective, the importance of social networks as mediums for communication can hardly be exaggerated. We talk because we are programmed to talk. As an indication of just how valuable communication networks can be, it is useful to look briefly at a simpler form of life. Researchers at the University of Vermont recently discovered that ravens, for example, possess their own version of word-of-mouth. Experiments reveal that when a common raven discovers a food source—say, a cow carcass left in a snowy field—the bird flies away without pausing for a bite. A few days later, the bird returns, often with scores of other ravens. One might expect the original bird to keep the secret to itself. But in fact, “more pairs of looking eyes increases the likelihood that all birds will be fed, and on a continuous basis,” writes a scientist who conducted the research (Heinrich, 1995). The behavior of ravens, much like the more familiar examples of ants and bees, suggests that word-of-mouth communication is not a trivial activity we pursue merely to pass the time. Rather, communicating with each other is an inherent, inevitable, and largely beneficial activity that we engage in as a result of our genes.



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Lest the connection between hungry birds and human beings seem too tenuous, other researchers offer a separate theory to explain the basic importance of word-of-mouth. Much as primates establish and maintain social ties by physically grooming one another, our tendency to gossip may have developed as a tool for managing relationships. A British anthropologist notes that we are “fascinated beyond measure” with the quotidian details of social living (Dunbar, 1996). Studies show that approximately two-thirds of peoples’ conversations concern social issues: “Who is doing what with whom, and whether it’s a good or bad thing; who is in and who is out, and why” (Dunbar, 1996). These are the simple topics of conversation we discuss when “grooming” our friends and acquaintances. Notably, we easily incorporate our experiences with products and services into such small talk. After all, it is natural to ask a visitor about her flight or hotel, or to remark upon a business journal or suit manufacturer to a coworker.

Modern humans rarely need to communicate about food the way animals do, and few people consider grapevine gossip akin to grooming. Yet in other ways, we remain highly dependent on word-of-mouth information for our happiness and welfare. In a well-known article published in 1974, Mark Granovetter surveyed several hundred white-collar workers in a Boston suburb and discovered that over one-half found their jobs through a personal contact (Granovetter, 1995). This research suggests that when starting a career, the old maxim largely holds true: it's not what you know, but who you know that counts. Other research discloses that people rely heavily on word-of-mouth information when making risk-laden decisions. When high-yield hybrid seed appeared in Iowa, for example, farmers faced the prospect of radical change in their corn-growing behavior. Ultimately, the advantages of the new seed convinced nearly the entire community of farmers to adopt the technology. Sociologists later found that farmer-to-farmer exchanges of personal experiences lay at the heart of the hybrid seed’s diffusion (Ryan, 1995).



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Research conducted by RKM Research and Communications shows that word-of-mouth remains a primary source of information among consumers of healthcare and financial services. Like farmers confronted with new agricultural techniques, hospital patients and banking customers must make risky decisions. Yet both healthcare and banking consumers also face countless difficult-to-distinguish advertisements touting everything from hospitals to health plans and savings accounts to CDs. Little surprise, then, that among residents living near one of our client hospitals, those who recalled positive word-of-mouth were nearly three times more likely to report that they would use the hospital for an overnight procedure than respondents who did not recall any word-of-mouth. In a separate study, 65 percent of residents exposed to word-of-mouth about a well-established Massachusetts bank reported that they would consider using the bank for a loan or deposit account in the future. By comparison, only 22 percent of customers who were not exposed to word-of-mouth indicated they would consider using the bank.

Whether looking for a job, shopping for healthcare, or considering a bank, we rely heavily on interpersonal communication. But how exactly does information travel from one person to another? Does a customer simply turn to the next nearest shopper, or do consumers tap into the flow of word-of-mouth information in predictable ways? Is it possible to measure or overhear the exchange of information coursing through the consumer grapevine? To answer these questions, one must understand the structure of social networks.

Seventy Elders

As one influential scholar points out, the earliest account of word-of-mouth information operating in social networks comes not from an Ivy League researcher or a prestigious journal, but from the book of Exodus (Weimann, 1994). There, Moses leads 600,000 former slaves through 40 years in the wilderness without the assistance of modern methods of mass communication. Burdened by his task, Moses turns to God: “I am not able to bear all this people myself alone, because it is too heavy for me” (Numbers 11:11-14). God responds to Moses’ prayer with history’s first introduction to the phenomenon of social leaders influencing public opinion:



The Lord therefore said to Moses, "Gather unto Me seventy men from the elders of Israel, whom you know to be the elders of the people and their officers and bring them to the tent of meeting, and let them take their stand there with you. Then I will come down and speak with you there, and I will take of the Spirit who is upon you, and will put Him upon them; and they shall bear the burden of the people with you, so that you will not bear it all alone (Numbers 11: 16-17).

In this passage, God proposes to promulgate critical information from an initial spokesperson (Moses), to a select number of influential social leaders (the seventy elders), and then to the whole community: "And Moses gave commandment, and they caused it to be proclaimed throughout the camp" (Exodus 36:6) In the words of one expert, this represents "the first documentation of the multi-step flow of communication where personal networks and social positions are used for disseminating the messages from a single source ... to the vast public" (Weimann, 1994). The passage also highlights one of the defining features of social networks. Namely, networks are structured around individuals who enjoy above-average influence over other members of their community.

Of course, much has been written about the structure of social networks since Moses led his charges out of Egypt. In 1903, for example, the French sociologist Gabriel Tarde recognized that "every herd of cattle has its leaders, its influential heads" (Tarde, 1903). Later, during the "Golden Age" of advertising, Paul Lazarsfeld and others at Columbia University made a series of startling discoveries about social networks while investigating the impact of paid-media campaigns. First, Lazarsfeld found that certain people wielded greater influence within groups than others. These so-called "opinion leaders" often acted as intermediaries through which advertising messages passed. Second, studies revealed that person-to-person communication had a stronger impact on individuals' attitudes than the mass media alone. Finally, research suggested that the messages transmitted by opinion leaders frequently changed, since the strength of an opinion leader's authority could alter, reinforce, weaken, or block a particular commercial message (Lazarsfeld, 1944).

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Researchers today employ an overwhelming number of labels to identify opinion leaders and others like them. The seventy elders to whom Moses passed God's commands would variously be termed "opinion leaders," "influentials," "network hubs," "brand advocates," "mavens," "salesmen," or "connectors," depending on their particular characteristics. Since Lazarfeld's ground-breaking research, moreover, numerous studies have verified the influential role these people play in all walks of life. Academic research conducted by R. Kelly Myers found that among likely voters in New Hampshire's presidential primary, political learning occurs most effectively through social interactions with personal intermediaries, as opposed to exposure to electronic or print news (Myers, 1994).

Six Degrees of Separation

Decades of investigation have not told scientists everything there is to know about social networks, but a few important principles have emerged. Foremost among these is the idea that networks form around "common nodes." In the 1960s, psychologist Stanley Milgram inspired the phrase "six degrees of separation" when he demonstrated that five or six personal connections separate any two randomly selected Americans. Yet Milgram's research did not simply show that everyone is linked to everyone else in six steps. Rather, his experiments revealed that "a very small number of people are linked to everyone else in a few steps, and the rest of us are linked to the world through those special few" (Gladwell, 2002). As the book of Exodus intimates, these special few tend to be opinion leaders. And while a five- or six-step separation does not seem like much, Milgram noted that "[w]hen we speak of five intermediaries, we are talking about an enormous psychological distance between the starting and the target points." A business, therefore, does not have much control over its own word-of-mouth information. An intentional or unintentional message passes through approximately six individuals and a common node (e.g., an influential opinion leader), before it reaches a likely future consumer.



A second, related principle of networks states that word-of-mouth operates elusively and out of sight (Rosen, 2000). The complexity and dynamism of social networks generally make them too difficult for researchers to map, and the average person simply cannot accurately describe the social links that extend beyond one's five or six closest friends (Krackhardt, 1993). Coupled with Milgram's research, the invisibility of networks means that marketers typically cannot influence word-of-mouth as easily as they can control their advertising budgets. While this has probably generated opposition among marketers to the power of word-of-mouth (Krackhardt, 1993), others realize that "the fact that consumers control word-of-mouth is what makes it so powerful" (Cafferky, 2004). After all, third-party advice about a particular product or service is not only credible, but consumers are more receptive to information they hear from ostensibly unbiased sources.

Third, the principle of homophily dictates that most human communication will occur among interlocutors who resemble one another in terms of such characteristics as gender, race, values, and social status (Touchey, 1974). Dissimilar individuals tend not to communicate as effectively because of cognitive dissonance—the psychological discomfort one feels when faced with new or conflicting information. As a result of homophily, information in a social network will cluster around like individuals. For marketers, this means that sales will be higher when employees and customers share similar characteristics. If few connections exist between separate clusters, it also means that word-of-mouth information can become "stuck" in a particular group. Ronald Burt, a sociologist at the University of Chicago, calls such a gap a "structural hole," and notes that different information often circulates on both sides of the hole (Burt, 1992). Notably, geography also plays a role here, for similar people tend to live together in a particular neighborhood, district, or region. Successful businesses therefore maintain a physical presence in many different locations.



A fourth principle of networks informs us that network nodes (e.g., opinion leaders) frequently create shortcuts between isolated clusters. Put differently, such individuals bridge the structural holes that exist between different groups. Some researchers believe that these shortcuts explain how merely five or six personal connections can link two randomly selected Americans (Watts, 1998). After all, a relatively small number of such people could connect widely different and otherwise remote networks. Marketers, of course, can create their own shortcuts by identifying customers and employees who can effectively transmit information about a product from one network to another. The short-cut phenomenon also means that information can sometimes appear unexpectedly in a particular group. Word of a poor service experience by a low-end banking customer, for instance, can spread to high-end customers of the same bank.

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Fifth, as Mark Granovetter’s research suggests, “weak” ties, or relationships between casual acquaintances, are surprisingly strong (Granovetter, 1995). Close, day-to-day friends typically move in the same social circle. As a result, the “strong” connections linking these individuals tend not to transmit new information. In contrast, relationships with more distant contacts often generate more useful news—such as a job opportunity in Granovetter’s case. Notably, at least one commentator believes that the Internet nurtures weak ties and as a result aids in the rapid spread of news and information (Rosen, 2000). For marketers, the relative lack of information that close associates provide makes it important to diversify one’s connections and to listen to other networks.

Using Research to Measure Word-of-mouth

The significance of word-of-mouth as a powerful marketing tool cannot be ignored. As one writer notes, “[t]here are plenty of advertising executives who think that precisely because of the sheer ubiquity of marketing efforts these days, word-of-mouth appeals have become the only kind of persuasion most of us respond to anymore” (Gladwell, 2002). The executive vice president of advertising and brand management at Charles Schwab sums it up as follows: “The idea that a critical part of marketing is word-of-mouth and validation from important personal relationships is absolutely key, and most marketers ignore it” (Rosen, 2000). Yet how can a marketing department begin to understand and respond to word-of-mouth information about a particular business or service? Books and articles proclaim the importance of word-of-mouth, but few offer actionable strategies to manage it effectively.



Fortunately, new measurement techniques pioneered by RKM Research and Communications now make it possible to track the intensity and type of word-of-mouth among consumers, and to provide managers with specific insight into how to more accurately control what consumers say about a particular product, service or brand. The research not only quantifies the effect of word-of-mouth. It also delivers specific insight into ways to control it. Our methodology begins by identifying a complete range of direct, indirect and mediated impression sources that predict positive and negative word-of-mouth. Survey data using proprietary measurement techniques and advanced statistical analytics then reveal the relative weight of each impression source on changes in word-of-mouth. Linked with financial information, the research is able to quantify the impact of word-of-mouth and place a financial value on it. Most importantly, we are able to deliver an interactive simulator that gives managers the ability to identify exactly what they can do to generate more positive word-of-mouth and reduce any negatives. Tracking both positive and negative buzz is important because the latter can have a disproportionate impact (Rosen, 2000).

Our work also parses out the relative importance that specific experiences have on consumers' perception of value, both cognitively and emotionally. While many researchers recognize that emotional factors must be considered when attempting to understand consumer behavior, RKM Research and Communications is at the pioneering forefront of applying this research to the commercial market. Specifically, the relevance of a consumer's emotional response to a particular product or service lies in the fact that the "emotional involvement a customer has with a product is a good predictor of how many people he or she will tell about an experience" (Rosen, 2000). Knowing the degree to which a product evokes an emotional response delivers additional insight to inform marketing activities that will encourage and promote more positive word-of-mouth.



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