A new way to measure word-of-mouth marketing

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A new way to measure word-of-mouth marketing

Assessing its impact as well as its volume will help companies take better advantage of buzz.

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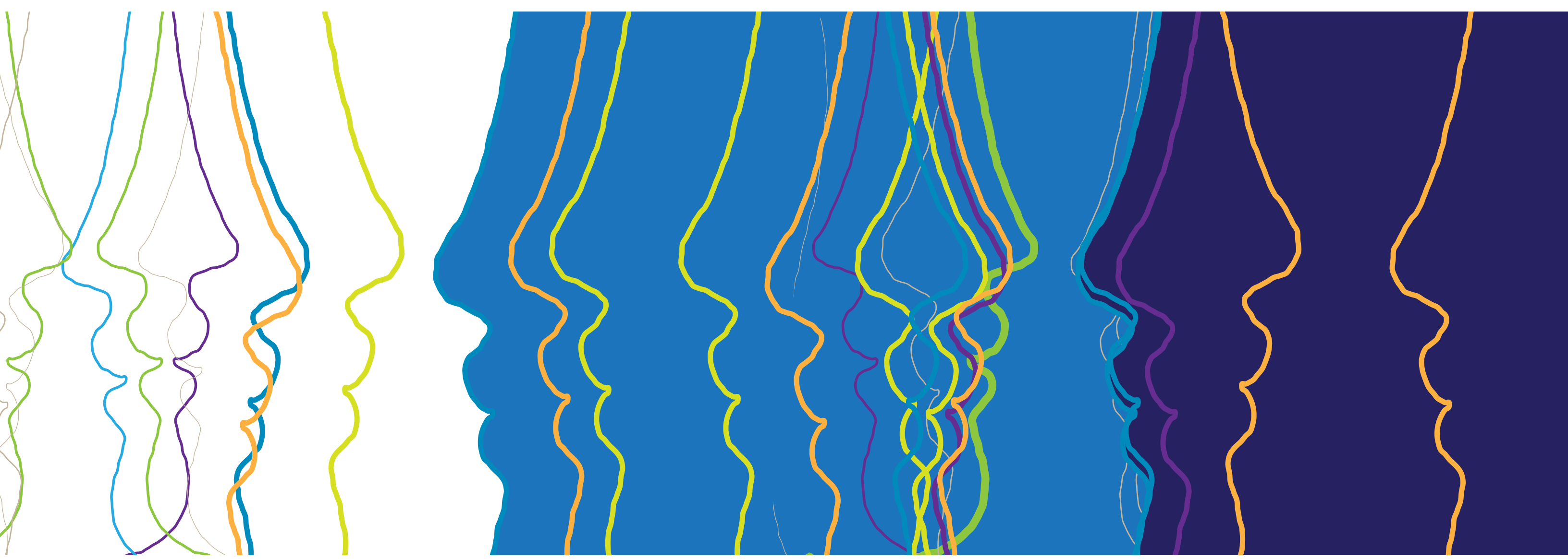


Consumers have always valued opinions expressed directly to them. Marketers may spend millions of dollars on elaborately conceived advertising campaigns, yet often what really makes up a consumer's mind is not only simple but also free: a word-of-mouth recommendation from a trusted source. As consumers overwhelmed by product choices tune out the ever-growing barrage of traditional marketing, word of mouth cuts through the noise quickly and effectively.

Indeed, word of mouth[1] is the primary factor behind 20 to 50 percent of all purchasing decisions. Its influence is greatest when consumers are buying a product for the first time or when products are relatively expensive, factors that tend to make people conduct more research, seek more opinions, and deliberate longer than they otherwise would. And its influence will probably grow: the digital revolution has amplified and accelerated its reach to the point where word of mouth is no longer an act of intimate, one-on-one communication. Today, it also operates on a one-to-many basis: product reviews are posted online and opinions disseminated through social networks. Some customers even create Web sites or blogs to praise or punish brands.

As online communities increase in size, number, and character, marketers have come to recognize word of mouth's growing importance. But measuring and managing it is far from easy. We believe that word of mouth can be dissected to understand exactly what makes it effective and that its impact can be measured using what we call "word-of-mouth equity"—an index of a brand's power to generate messages that influence the consumer's decision to purchase. Understanding how and why messages work allows marketers to craft a coordinated, consistent response that reaches the right people with the right content in the right setting. That generates an exponentially greater impact on the products consumers recommend, buy, and become loyal to.

A consumer-driven world

The sheer volume of information available today has dramatically altered the balance of power between companies and consumers. As consumers have become overloaded, they have become increasingly skeptical about traditional company-driven advertising and marketing and increasingly prefer to make purchasing decisions largely independent of what companies tell them about products.

This tectonic power shift toward consumers reflects the way people now make purchasing decisions.[2] Once consumers make a decision to buy a product, they start with an initial consideration set of brands formed through product experience, recommendations, or awareness-building marketing. Those brands, and others, are actively evaluated as

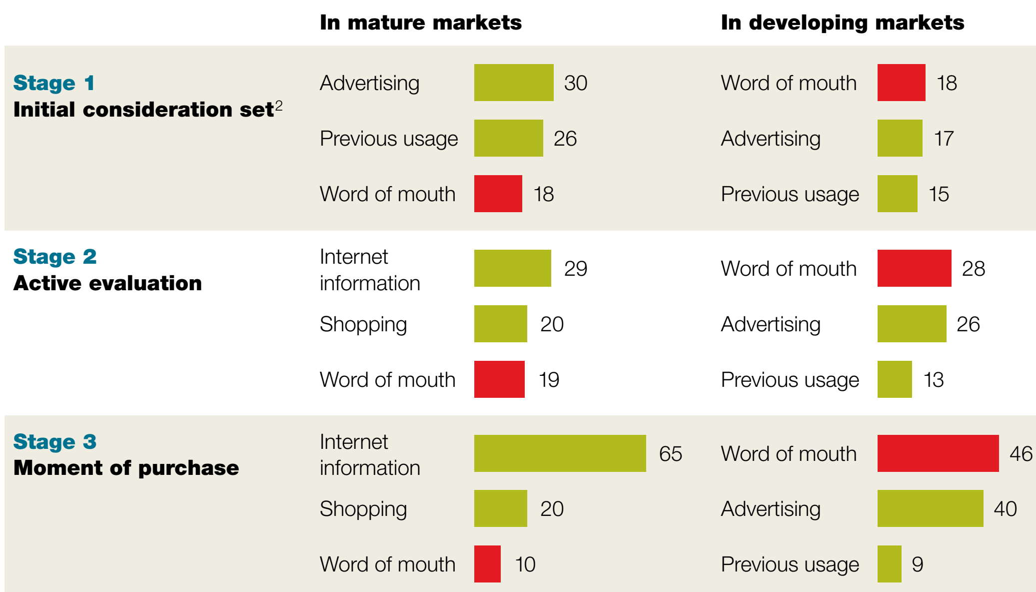
[1] The term *word of mouth*, as used in this article, means consumer-to-consumer communication with no economic incentives. The sender may, however, reap social gratification or rewards.

[2] See David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The consumer decision journey," mckinseyquarterly.com, June 2009.

Exhibit 1

Where it counts

Top 3 factors that influence whether a product is considered at each stage of the consumer decision journey, mobile-phone example, %[1]



[1]Figures do not sum to 100%, because percentages for several other factors are not shown.
[2]Excludes consumers who were contacted by provider to extend contract after expiration.

consumers gather product information from a variety of sources and decide which brand to purchase. Their postsales experience then informs their next purchasing decision. While word of mouth has different degrees of influence on consumers at each stage of this journey (Exhibit 1), it's the only factor that ranks among the three biggest consumer influencers at every step.

It's also the most disruptive factor. Word of mouth can prompt a consumer to consider a brand or product in a way that incremental advertising spending simply cannot. It's also not a one-hit wonder. The right messages resonate and expand within interested networks, affecting brand perceptions, purchase rates, and market share. The rise of online communities and communication has dramatically increased the potential for significant and far-reaching momentum effects. In the mobile-phone market, for example, we have observed that the pass-on rates for key positive and negative messages can increase a company's market share by as much as 10 percent or reduce it by 20 percent over a two-year period, all other things being equal. This effect alone makes a case for more systematically investigating and managing word of mouth.

Understanding word of mouth

While word of mouth is undeniably complex and has a multitude of potential origins and motivations, we have identified three forms of word of mouth that marketers should understand: experiential, consequential, and intentional.

Experiential

Experiential word of mouth is the most common and powerful form, typically accounting for 50 to 80 percent of word-of-mouth activity in any given product category. It results from a consumer's direct experience with a product or service, largely when that experience deviates from what's expected. (Consumers rarely complain about or praise a company when they receive what they expect.) Complaints when airlines lose luggage are a classic example of experiential word of mouth, which adversely affects brand sentiment and, ultimately, equity, reducing both receptiveness to traditional marketing and the effect of positive word of mouth from other sources. Positive word of mouth, on the other hand, can generate a tailwind for a product or service.

Consequential

Marketing activities also can trigger word of mouth. The most common is what we call *consequential* word of mouth, which occurs when consumers directly exposed to traditional marketing campaigns pass on messages about them or brands they publicize. The impact of those messages on consumers is often stronger than the direct effect of advertisements, because marketing campaigns that trigger positive word of mouth have comparatively higher campaign reach and influence. Marketers need to consider both the direct and the pass-on effects of word of mouth when determining the message and media mix that maximizes the return on their investments.

Intentional

A less common form of word of mouth is *intentional*—for example, when marketers use celebrity endorsements to trigger positive buzz for product launches. Few companies invest in generating intentional word of mouth, partly because its effects are difficult to measure and because many marketers are unsure if they can successfully execute intentional word-of-mouth campaigns.

What marketers need for all three forms of word of mouth is a way to understand and measure its impact and financial ramifications, both good and bad.

Word-of-mouth equity

A starting point has been to count the number of recommendations and dissuasions for a given product. There's an appealing power and simplicity to this approach, but also a challenge: it's difficult for marketers to account for variability in the power of different kinds of word-of-mouth messages. After all, a consumer is significantly more likely to buy a product as a result of a recommendation made by a family member than by a stranger.

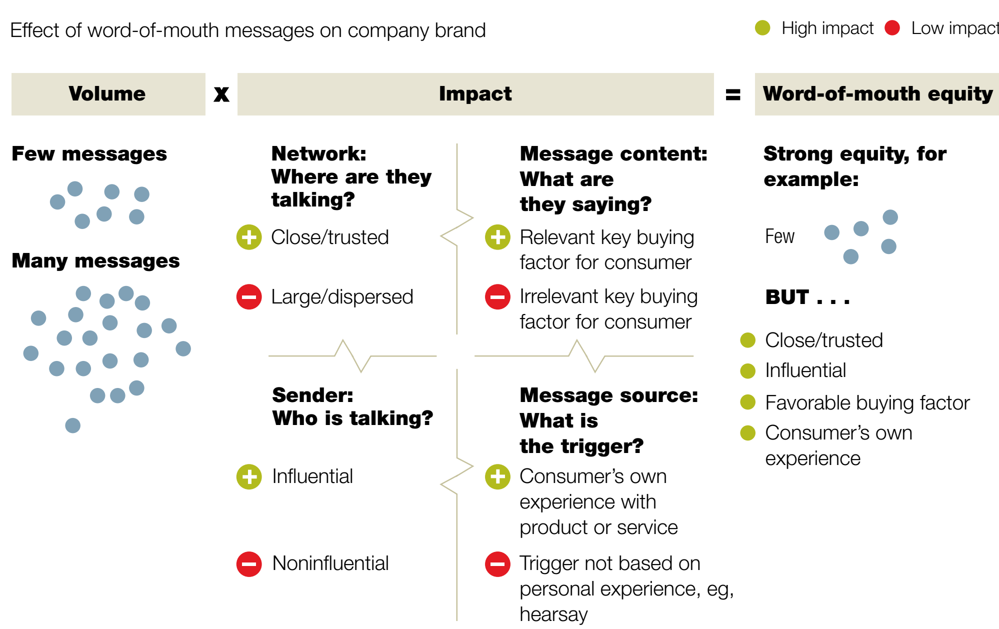
These two kinds of recommendations constitute a single message, yet the difference in their impact on the receiver's behavior is immense. In fact, our research shows that a high-impact recommendation—from a trusted friend conveying a relevant message, for example—is up to 50 times more likely to trigger a purchase than is a low-impact recommendation.

To assess the impact of these different kinds of recommendations, we developed a way to calculate what we call word-of-mouth equity. It represents the average sales impact of a brand message multiplied by the number of word-of-mouth messages. By looking at the impact—as well as the volume—of these messages, this metric lets a marketer accurately test their effect on sales and market share for brands, individual campaigns, and companies as a whole (Exhibit 2). That impact—in other words, the ability of any one word-of-mouth recommendation or dissuasion to change behavior—reflects what is said, who says it, and where it is said. It also varies by product category.

What's said is the primary driver of word-of-mouth impact. Across most product categories, we found that the content of a message must address important product or service features if it is to influence consumer decisions. In the mobile-phone category, for example, design is more important than battery life. In skin care, packaging and ingredients create more powerful word of mouth than do emotional messages about how a product makes people

Exhibit 2

Measuring the impact



feel. Marketers tend to build campaigns around emotional positioning, yet we found that consumers actually tend to talk—and generate buzz—about functional messages.

The second critical driver is the identity of the person who sends a message: the word-of-mouth receiver must trust the sender and believe that he or she really knows the product or service in question. Our research does not identify a homogenous group of consumers who are influential across categories: consumers who know cars might influence car buyers but not consumers shopping for beauty products. About 8 to 10 percent of consumers are what we call influentials, whose common factor is trust and competence. Influentials typically generate three times more word-of-mouth messages than noninfluentials do, and each message has four times more impact on a recipient's purchasing decision. About 1 percent of these people are digital influentials—most notably, bloggers—with disproportionate power.

Finally, the environment where word of mouth circulates is crucial to the power of messages. Typically, messages passed within tight, trusted networks have less reach but greater impact than those circulated through dispersed communities—in part, because there's usually a high correlation between people whose opinions we trust and the members of networks we most value. That's why old-fashioned kitchen table recommendations and their online equivalents remain so important. After all, a person with 300 friends on Facebook may happily ignore the advice of 290 of them. It's the small, close-knit network of trusted friends that has the real influence.

Word-of-mouth equity empowers companies by allowing them to understand word of mouth's relative impact on brand and product performance. While marketers have always known that the impact can be significant, they may be surprised to learn just how powerful it really is. When Apple's iPhone was launched in Germany, for example, its share of word-of-mouth volume in the mobile-phone category—or how many consumers were talking about it—was about 10 percent, or a third less than that of the market leader. Yet the iPhone had launched in other countries, and the buzz accompanying those messages in Germany was about five times more powerful than average. This meant the iPhone's word-of-mouth equity score was 30 percent higher than that of the market leader, with three times more influentials recommending the iPhone over leading handsets. As a result, sales directly attributable to the positive word of mouth surrounding the iPhone outstripped those attributable to Apple's paid marketing sixfold. Within 24 months of launch, the iPhone was selling almost one million units a year in Germany.

The flexibility of word-of-mouth equity allows us to gauge the word-of-mouth impact of companies, products, and brands regardless of the category or industry. And because it measures performance rather than the sheer volume of messages, it can be used to identify what's driving—and hurting—word-of-mouth impact. Both insights are critical if marketers are to convert knowledge into power.

Harnessing word of mouth

The rewards of pursuing excellence in word-of-mouth marketing are huge, and it can deliver a sustainable and significant competitive edge few other marketing approaches can match. Yet many marketers avoid it. Some worry that it remains immature as a marketing discipline compared with the highly sophisticated management of marketing in media such as television and newspapers. Others are concerned that they can't draw on extensive data or elaborate marketing tools fine-tuned over decades. For those unsure about actively managing word of mouth, consider this: the incremental gain from outperforming competitors with superior television ads, for example, is relatively small. That's because all companies actively manage their traditional marketing activities and all have similar knowledge. With so few companies actively managing word of mouth—the most powerful form of marketing—the potential upside is exponentially greater.

The starting point for managing word of mouth is understanding which dimensions of word-of-mouth equity are most important to a product category: the who, the what, or the where. In skincare, for example, it's the what; in retail banks, the who. Word-of-mouth-equity analysis can detail the precise nature of a category's influentials and pinpoint the highest-impact messages, contexts, and networks. Equipped with these insights, companies can then work on generating positive word of mouth, using the three forms we identified: experiential, consequential, and intentional.

Although the importance of these triggers varies category by category, experiential sources are the most important across them. Harnessing experiential word of mouth is fundamentally about providing customers with the opportunity to share positive experiences and making the story relatable and relevant to the audience. Some companies, such as Miele and Lego, build buzz around products before launch and work to have early, highly influential adopters by involving consumers in product development, supported by online communities. Consistently refreshing the product experience also helps harness experiential word of mouth—consumers are more likely to talk about a product early in its life cycle, which is why product launches or enhancements are so crucial to generating positive word of mouth. Buzz also can be sustained after launch: Apple has maintained interest in and excitement about the iPhone via its apps store, as constantly evolving and user-generated content maintains positive word of mouth.

Most companies actively use customer satisfaction insights when developing new products and services. Yet a satisfied customer base may not be enough to create buzz. To create positive word of mouth that actually has impact, the customer experience must not only deviate significantly from expectations but also deviate on the dimensions that matter to the customer and that he or she is likely to talk about. For instance, while battery life is a crucial driver of satisfaction for mobile-handset consumers, they talk about it less than other product features, such as design and usability. To turn consumers into an effective marketing vehicle, companies need to outperform on product and service attributes that have intrinsic word-of-mouth potential.

Managing consequential word of mouth involves using the insights provided by word-of-mouth equity to maximize the return on marketing activities. By understanding the word-of-mouth effects of the range of channels and messages employed and allocating marketing activities accordingly, companies can equip consumers to spread marketing messages and drive their reach and impact. In fact, McKinsey research shows that marketing-induced consumer-to-consumer word of mouth generates more than twice the sales of paid advertising in categories as diverse as skincare and mobile phones.

Two things supercharge the creation of positive consequential word of mouth: interactivity and creativity. They are interrelated, and particularly important for brands in relatively low-innovation categories that often struggle to gain consumer attention. One example of a company successfully harnessing this power is the UK confectioner Cadbury, whose “Glass and a Half Full” advertising campaign used creative, thoughtful, and integrated online and traditional marketing to spur consumer interaction and sales.

The campaign began with a television commercial featuring a gorilla playing drums to an iconic Phil Collins song. The bizarre juxtaposition was an immediate hit. The concept so engaged consumers that they were willing to go online, view the commercial, and create amateur versions of their own, triggering a torrent of YouTube imitations. Within three months of the advertisement’s appearance, the video had been viewed more than six million times online, year-on-year sales of Cadbury’s Dairy Milk chocolate had increased by more than 9 percent, and the brand’s positive perception among consumers had improved by about 20 percent.

Intentional word-of-mouth campaigns revolve around identifying influentials who become brand and product advocates. Of course, companies can’t precisely control what consumers tell others. But ambitious marketers can use word-of-mouth equity insights to shift from consequential to intentional campaigning.

The type of campaign that companies choose to adopt depends on the degree to which marketers can find and target influentials. Marketers capable of undertaking one-to-one marketing—such as mobile-phone operators—are uniquely positioned to execute controlled and effective intentional word-of-mouth campaigns. Mobile carriers have granular customer data that can precisely locate influentials who know the category, talk to many people, and provide them with trusted opinions. That means messages can be directed at specific individuals who are most likely to spread positive word of mouth through their social networks. As a message spreads, this approach generates an exponential word-of-mouth impact, similar to the ripple effect when a pebble is dropped in a pond.

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Companies unable to target influentials precisely must take a different approach. While Red Bull, for example, can't send text messages to specific consumers, it has successfully deployed science to orchestrate effective intentional word-of-mouth campaigns. After identifying influentials among its different target segments, the energy-drink company ensures that celebrities and other opinion makers seed the right messages among consumers, often through events. While it can't be sure who will attend, Red Bull knows that those who do will be the kinds of consumers it seeks—and that the positive messages they will relay across their own social networks can generate a superior return for its marketing investment.

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Marketers have always been aware of the effect of word of mouth, and there is clearly an art to effective word-of-mouth campaigning. Yet the science behind word-of-mouth equity helps reveal how to hone and deploy that art: it shows which messages consumers are likely to pass on and the impact of those messages, allowing marketers to estimate the tangible effect word of mouth has on brand equity and sales. These insights are essential for companies that want to harness the potential of word of mouth and to realize higher returns on their marketing investments.

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