

Viral Marketing – Establishing Customer Relationships by 'Word-of-mouse'

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A b s t r a c t

Newcomers to electronic markets are forced to accumulate customers as rapidly as possible. One strategy to fulfil this aim is so called viral marketing, which seems an appropriate term for describing the pattern in which Internet companies spread by making use of customer referrals. The aim of this article is to describe and explain common features of viral marketing strategies and to outline chances and risks associated with using Internet word-of-mouth in consumer settings.

INTRODUCTION TO VIRAL MARKETING: THE USER AS A SALESMAN

In its first years, electronic business has similarities to a landgrab (Evans and Wurster 1999: 85) as Internet companies are measured by the number of users they can acquire (Zien 2000). But in virtual markets, traditional sales techniques are mostly overcome as Internet business relies on interactive relationships with customers. Therefore, nothing could be as promising as using the customer to do the selling as signified in the old proverb of the 'customer as the salesman'. This is certainly no innovative idea since many companies have made use of the positive word-of-mouth of their customers. But on the Internet, these attempts have been built up as a comprehensive marketing program termed 'viral marketing'. It stands for a company's activities to make use of customers' communication networks to promote and distribute products. Viral marketing became the Internet buzzword of the year in 1998. E-commerce, groupware, community, messaging, and promotion businesses could all be using these techniques to develop their business (Jurvetson and Draper 1998), and a lot of companies are only just starting v-marketing.

Literature dealing with viral marketing is mostly reduced to relating success stories; definitions and back-

grounds are hardly focused. This paper will attempt to shed some light into the contents of viral marketing. Following this introduction, word-of-mouth will be analysed with respect to its special aspects in Internet communication. The term viral marketing will be discussed in the third section, the main elements of this marketing strategy pointed out, low and high integration v-marketing strategies considered, and chances and risks will be focused on. The paper ends with a short conclusion.

RELEVANCE AND CHARACTERISTICS OF WORD-OF-MOUTH ON THE INTERNET

Traditional Word-of-Mouth in a Marketing Context

Word-of-mouth (WOM) has been termed the 'world's most effective, yet least understood marketing strategy' (Misner 1994: 26). It refers to informal communication, both positive and negative, between individuals about characteristics of a supplier and/or his products, and services (Tax *et al.* 1993: 74). It is usually assumed that negative WOM is spread further than its positive counterpart (Anderson 1994: 11; Swan and Oliver 1989: 517). This makes WOM a fearful phenomenon to marketers who cannot grant 100% customer satisfac-

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tion, and a two-edged sword as informal discussions among consumers can make or break a product (Solomon *et al.* 1999: 282).

There are numerous reasons for the effectiveness of WOM in consumers' and organizational buyers' decision-making processes. From the perspective of the buyer, the exchange of experiences via personal communication is very important as '(T)he experience of others serves as "vicarious trial"' (Engel *et al.* 1995: 726; see also Murray 1991). WOM, therefore, is an important informational input into purchase decision making and reduces uncertainty. The main advantages of WOM are generally seen in its credibility (e.g. Assael 1998: 605), and permanent feedback that leads to high flexibility and reciprocity (Webster 1970: 186; Engel *et al.* 1995: 730).

Special Characteristics of Internet Word-of-Mouth

The popularity of text-based communication such as email, discussion and news groups, bulletin boards, and chat lines have laid the groundwork for the rapid growth of the Internet (Dholakia 1998: 175) as well as the impact of WOM in a global context. The vast diffusion of Internet technologies in consumer as well as business-to-business settings opens up new arenas for WOM (Assael 1998: 611) as can also be noticed by terms such as 'word-of-mouth' or 'word-of-modem' (Sansoni 1999: 118). Internet WOM stands for a customer's boundless dialogue with a potentially unlimited number of other Internet users (Stauss 1997: 28) that is not always positive for a company. A number of so called 'hate sites' illustrate the enormous danger of being made the topic of negative talk of malicious interest groups. Famous examples are Wal-Mart (<http://www.walmart-sucks.com>), Chase Manhattan Bank, Microsoft, and Toys 'R' Us. Moreover, consumer opinion sites such as Epinions.com or the German companies Ciao.com or Dooyoo.de offer

platforms for discussion about products and services multiplying the effects of word-of-mouth.

A firm can very actively make use of customers' interactions on the net. The establishment of chat groups or clubs for instance as an organized forum to discuss product problems, innovations or competitors' solutions can provide very helpful insights into customer choice making and contribute to the bonding of customers (Engelman 1996). Another possibility for a company to actively manage Internet WOM is of course viral marketing.

THE VIRAL MARKETING STRATEGY

Basics of Viral Marketing

Viral marketing can be understood as a communication and distribution concept that relies on customers to transmit digital products via electronic mail to other potential customers in their social sphere and to animate these contacts to also transmit the products. Synonymously, such terms as propagation, aggregation, or organic marketing have been used. An exchange between supplier and customer only takes place indirectly; customers take the function of intermediaries, and the supplying firm only contacts the first few adopters. The analogy of viruses lies within the exponential diffusion of information about products and also the products themselves that the 'carriers' email to numerous new addresses which again will be 'contaminated' (Jurvetson and Draper 1998; examples are discussed by Anonymous 1999; Sandberg 1999: 65; Sansoni 1999: 118).

More effectively than through use of affiliated networks (e.g. *Amazon.com*, *Lycos.com*, *Yahoo!*), viral or v-marketing diffuses products much faster, since the company does not rely on potential customers to use links to get to its homepage. The customer is lead to a homepage by fellow users. Several aspects characterize successful viral marketing strategies:

- The product is being offered for free only on the net and via no other distribution channel. The specific cost structure of digital products (nearly no fixed costs) favours this gratis distribution as the marginal cost for another unit approaches zero.
- The offer contains a real customer value, and at least in the initial phases, the product has no competitors in the perception of the target group.
- The first 'carriers' are chosen very carefully. Internet users that foster intense contact to other users (e.g. students) are especially interesting.

The Degree of Customer Integration as a Determinant of Viral Marketing Strategies

Viral marketing activities vary in the degree of requiring the customer's activity in passing on the 'virus'. In other terms: the degree of customer integration in the supplier's marketing process differs. Therefore, viral marketing strategies may be classified into low and high integration strategies. In a simple form v-marketing makes use of the Internet to amplify WOM, causing a firm's customers to spread a message (Gordon 1999) as it is done in traditional member-get-member programs. Examples for *low integration strategies* are for instance the 'Send this story to a friend'-buttons on a news site as this does not call for more activity by the customer than to send an e-mail to a potential user. This viral broadcast model can be used for a variety of products such as web-hosted address books, calendars, list servers, news group readers, greeting card services, and so on (Jurvetson and Draper 1998).

As in the case of *Hotmail.com* – one of the most cited examples of successful viral marketing – the customer spreads the word of the service simply by using it. *Hotmail* offers a free email address to customers. Each mail sent via *Hotmail* has a tagline and a link added at the bottom featuring the slogan 'get your free email at

Hotmail. This way, users become automatically 'salesmen' of the firm as *Hotmail's* ad-financed service package and its own advertisers' messages are promoted by every user's email-notes. Another example is *Blue Mountain Arts'* free greeting card web service. An email is sent to the recipient telling him of the electronic greeting card awaiting him if he 'picks it up' by visiting *Blue Mountain Arts'* site.

Some other companies use *high customer integration strategies*. This type of viral marketing might also be called 'active v-marketing' (Zien 2000), as it demands the proactive participation of the customer in acquiring new users. This is for example the case for *ICQ* ('I seek you'), an online messaging service that tells its users when selected friends or colleagues are also online. The more friends use *ICQ's* offering, the more beneficial for the users. Applying the service calls for downloading the *ICQ* chat software. Therefore, a customer must actively convince potential chat partners to also use *ICQ*. The same worked out for *Winamp.com*, an Internet music player. In order to trade digitized songs with friends, they should use the program, too ('effects of critical mass'; Sansoni 1999: 118). Affiliate programs such as *Amazon.com's* Associate program could also be classified as an active v-marketing tool. If owners of a homepage actively act as a referral source, *Amazon* pays these associates for directing potential customers to the *Amazon* homepage (Zien 2000). Starting in 1996, by April 2000 *Amazon's* associate program had more than 400,000 members.

Some of the features of v-marketing are of course not restricted to Internet companies but may be used in traditional marketing as well. A number of companies using the Internet as a communication or promotion tool insert messages that encourage the user to email special information, links, greeting card services etc. to friends who will this way be led to the company's homepage. The aim is to get people to talk and exchange news

about the company opening up the social sphere of the customer that could not be entered in such an effective way in former times. But most of these activities are not integrated in a comprehensive (v-marketing) strategy and also lack control mechanisms.

Aims, Chances and Risks Associated with Viral Marketing Strategies

The aim of companies using viral marketing strategies is not to maximize profits; in fact, the revenue prospects are rather dim. The normally applied, alternate routes to revenue in e-business as advertising, subscriptions, or pay per use (Randall 1997: 157) are not feasible as in v-marketing customers are offered the products for free. *Zapa.com* for instance offers 'gizmos' which are customized clip art and other features that a user may download to use either on his own site or to forward to friends. *Zapa.com* focuses on several options to enter the profit zone: by putting advertisements on each gizmo, by providing demographic information to its advertisers to help them better target their potential customers, and by getting a cut out of advertisers' sales going to gizmo viewers. The target of viral marketers is to maximize *reach* or 'eyeballs' as the number of customers with which a business can connect. Reach is a vital competitive advantage of e-business companies (Evans and Wurster 1999: 87; Jurvetson and Draper 1998). But the viral companies only flourish as long as advertisers come and pay for banners. Their strategy is risky as the balance between the customer value provided by the service and the concerns surrounding privacy is a delicate one (Jurvetson and Draper 1998).

The snowball effect of viral marketing leads to real first mover advantages (Jurvetson and Draper 1998). *ICQ* accumulated a user base of 5 million addresses, and then was sold to *AOL.com* for \$287 million. Also *Hotmail* thrived on multiplying its customer base: in less than three years

it grew to more than 40 million subscribers and was sold to *Microsoft* for \$400 million. *GeoCities*, a company that enables users to create personal websites was bought by *Yahoo!* for \$4 billion in stock, paying \$1,000 per user (Jurvetson and Draper 1998; Sansoni 1999). This seems to be the desired fate of ambitious viral marketers: being bought by a potent search engine or portal service.

V-marketing will be an efficient tool as long as the aim 'reach' remains unqualified. Social contacts between individuals can be used to get access to different groups of customers on local, national, or even global basis (Jurvetson and Draper 1998; Rayport 1999). On the other hand, information passed on by customers might be filtered, incomplete, and biased. The viral marketer cannot watch these distortion processes. Especially socially isolated individuals, who hardly take part in traditional WOM processes can articulate their opinion 'in front of' a large mass of other web users (Stauss 1997: 30). It might be questionable if these are the clients an Internet company seeks to acquire in the long run if a qualified or restricted 'reach' becomes the aim. V-marketing could then lead to an adverse selection of customers (Akerlof 1970).

Moreover, as Hagel and Rayport (1997: 55) fear, consumers might be less and less willing to provide companies with referrals. They will do so only as long as they get something in return. The focal question of building up customer value by e.g. inventing new services or finding a good brand name as examples of enforcing customer loyalty affects also viral marketing. Often, it is not loyalty that keeps a customer but his inertia as for instance in the case of changing one's email address (Zien 2000). Switching barriers for customers and entry barriers to competitors are vital elements of viral marketing as rapid growth seems senseless without customer retention (Jurvetson and Draper 1998). Moreover, dissatisfied customers have until now been ignored by the viral marketers. But as power shifts to the consumer as in the case of e-business

(Hagel and Rayport 1997: 55), viral marketing no longer guarantees success as customers might diffuse negative WOM. This could lead to a global distribution of unfavorable attitudes towards the supplier or even overnight boycott and ruin (Stauss 1997: 28).

OUTLOOK AND IMPLICATIONS

Using the customer as promoter and distributor is an intriguing idea, in traditional markets as well as in the Internet age. Viral marketing not only captured distribution and communication but also becomes an option in finance strategies. This seems certainly not farfetched as the originators of the term belong to the venture capital firm *Draper Fisher Jurvetson* (Jurvetson and Draper 1998). One of the original users of viral marketing to support a stock exchange introduction was *Yahoo!*. Another example is the German online-auctioneer *Tradeball*. Potential shareholders were contacted by email, offered shares for free as a promotion activity and asked to pass on the word to friends and colleagues. Other spheres of application, such as personnel recruitment might also be suitable for v-marketing.

But there are also some drawbacks to be taken into account. In e-business, strategy has long been subordinated to tactics, which again are subordinated to experimentation. But the key players will move their attention from claiming territory to defending or capturing it before long (Evans and Wurster 1999: 85). Therefore, viral marketers also should shift the focus from the pure gaining of new customers to the keeping of customers. This new perspective will reveal a number of issues unresolved up till now. Examples are the determinants of customer loyalty in e-business; motivations to pass on the word and to take part in the viral marketing

strategy and to refrain from negative WOM; the psychology of 'hate sites' and consumer opinion sites; the image effects of selling a viral marketer's business to another company and so forth. In the end, viral marketing calls for the establishment of relationships with customers just as do traditional marketing strategies.

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