Person-to-Person Marketing:
The Emergence of The New Consumer Web

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January 2001

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ABSTRACT

We propose a new form of marketing called, person-to-person(p2p) marketing. This is characterized by three elements- consumer collectives (both private social networks and public communities) conducting tasks usually performed by firms, diminished firm control on the marketing process and customer empowerment due to the end of isolation. We see the impact of consumer collectives in virtually all marketing processes- product development(e.g. Linux, Slashdot), message dissemination, i.e., viral marketing(e.g. Hotmail, Paypal), product evaluation(e.g. ePinions), (digital) product sharing(e.g. Napster, Gnutella), product purchase(e.g. eBay, Mobshop) and customer feedback(e.g. eComplaints). Our main objective in this paper is to identify P2P marketing as a major event in the marketing landscape and to place its impact in the context of the literature.

Key Words: Consumer Empowerment, Consumer-to-Consumer Relationships, Online Communities, Viral Marketing, Napster.

Introduction

The individual consumer is increasingly finding ways of meeting his or her needs through joint action rather than relying on corporations. We see this in virtually all marketing processes- product development(e.g. Linux, Slashdot), message dissemination(e.g. Hotmail, Paypal), product evaluation(e.g. ePinions), (digital) product sharing(e.g. Napster, Gnutella), product purchase(e.g. eBay, Mobshop) and customer feedback(e.g. eComplaints). As a result, companies must now adapt to thinking about a community of users who are interconnected through private social networks and/or public communities rather than thinking about a single consumer.

The collaborative consumer is antithetical to the nature of mass marketing. Even though exchange has been seen as a central tenet of marketing from the early days(Bagozzi, 1974, Bagozzi, 1975), mass marketing has obscured the face of the consumer in the marketing process. Here, the market is generally viewed as a “black box”- a faceless, impersonal abstraction- that can be influenced from the outside by varying the inputs to it. For example, it is common to think of a market as a pie. We use this analogy to describe firms fighting for market share, i.e., slice of pie. Similarly, consistent with the tradition of the literature in economics(e.g., Hicks, 1956), we commonly reduce a market to its demand curve.

Decades of this impersonal, aggregate approach to marketing have led to consumers losing faith in the marketing process. Studies routinely show that consumers are cynical of advertising (Triese, Weigold, Conna and Harrison, 1994, Mittal, 1994), relationship marketing(Fournier, Dobscha and Mick, 1998) and marketing in general(Sheth and Sisodia, 1995). Hence, it is no wonder that we find that the productivity of marketing investments has diminished(Sheth and Sisodia, 1995). Overall, it is safe to say that mass marketing has created a consumer who does not see the value added by fundamental marketing activities in his or her life.

Of course, the importance of Word of Mouth(WOM) in the marketing process has long been recognized(e.g. Reinegen and Kernan, 1986, Richins, 1983, Frenzen and Nakamoto, 1993). Starting with the Bass model, marketers have explicitly accounted for word of mouth in the diffusion of new products(Bass, 1969, Mahajan, Muller and Bass, 1990). Marketers are generally advised to satisfy consumers so that they can generate positive word of mouth(Hirschman, 1970). Moreover, companies are asked to identify and empower influential consumers, i.e., innovators/early adopters, opinion leaders and market mavens(Feick and Price, 1987) in order to maximize message dissemination.

However, WOM was never seen as the dominant paradigm for conducting marketing actions. For example, in a prominent undergraduate marketing textbook, Kotler and Armstrong(2001), the discussion of WOM is limited to one page (pg. 524). Similarly, the mode of contact with influential consumers was typically through mass marketing means such as mass advertising. Hence, it is fair to say that the marketer never participated or viewed the market conversation prior to the Internet.

The Internet has brought with it a new realization among marketers to adopt a win-win strategy with consumers. Permission marketing is a good illustration of this. Permission marketing envisions every customer shaping the targeting behavior of marketers (Godin, 1999, Krishnamurthy, 2001). Consumers empower a marketer to send them promotional messages in certain interest categories. The marketer then matches advertising messages with the interests of consumers. This two-stage communication process is seen as reducing consumer clutter and improving effectiveness.

However, simultaneously, there is a greater level of connectedness among consumers. Personal social networks of consumers have expanded (Achrol and Kotler, 1999) and consumers have organized themselves into issue-based communities(Kozinets, 1999). Consumers have organized and collaborated with their peers to achieve their goals in the marketplace.

We label this new reality- person-to-person(p2p) marketing. We argue that it is defined by three elements- consumer collectives conducting tasks usually performed by firms, diminished firm control on the marketing process and customer empowerment by the end of isolation.

While scholars have already argued for the disintermediation of other firms in the distribution channel(e.g. Hoffman, 1995), our argument is that the increased collaboration among consumers may fundamentally weaken the firm and empower the individual consumer. Ultimately, consumer collectives- be they personal social networks or public communities- could take over tasks that were the traditional province of firms. As a result, firms and marketing departments will be forced to adopt new roles. For example, when a group of developers worldwide came together to develop an operating system that met their needs (i.e., LINUX), the role of firms such as Red Hat was modified to offering customer service, offering CD versions of the product and helping in product installation. Similarly, if a consumer can get a product (say, a music file) from a peer, there would be no need for CDs or traditional retailers.

Second, firms will loose more control over the marketing process. Marketers must now think of themselves as one of the agents in the market conversation. As a result, companies can exert some influence, but not dictate outcomes. For example, firms cannot bribe or lobby consumers to write better evaluations in peer-based product evaluation systems such as ePinions.com. A person who boosts a bad product risks losing his or her reputation in the community and will hesitate to do so. Similarly, viral marketing, the new network-based message dissemination mechanisms, is an organic creature that firms have limited control over. The most spectacular viral marketing successes (e.g. Hotmail, Paypal) have been spontaneous events with very little structure imposed on them initially.

Finally, consumers are increasingly realizing that they are not alone in the marketplace. For example, if a consumer has a complaint against a company, he or she can now learn if his or her peers also have similar complaints and use that information when dealing with the company. Moreover, consumers who are dissatisfied with a company can form an interest-based community to air out these grievances. Similarly, when consumers stay in touch with one another they gain greater market power. A case in point is the coordination among consumers that allowed them to sniff out a random price test by Amazon.com (Medillo 2000).

Our first objective in this paper is to chronicle the impact of these three elements of p2p marketing on all marketing processes. The second objective is to highlight what is new by placing the new ethos in the context of the discussion in the marketing literature. One other paper has provided a comprehensive taxonomy of consumer-related business models(Dou and Bristow 2000). Our effort is different since our focus is entirely on consumer-to-consumer interaction whereas their focus was primarily on the business-to-consumer end with some coverage of consumer-to-consumer models.

Literature Review

Person-to-person marketing reflects a natural progression in marketing thought. As discussed earlier, mass marketing thinks of the market as a "black box" that can be influenced from the outside. The underlying assumption here is that, given the magnitude of the market, it is not possible to uniquely identify and address each individual. Hence, the approach is to "target on averages", i.e. aim programs at the average consumer. Since disinterested individuals are targeted, there is a lot of wastage. Moreover, there is no interactivity between the marketer and consumers or between consumers. As a result, consumers do not perceive relationship building and rather, view all marketing communication as rhetoric from a distant, impersonal source.

Of course, marketing scholars have long been disenchanted with the mass marketing mentality. Two ideas that have emerged as a reaction are 1:1 and relationship marketing. Both suggest that marketers build strong relationships with each customer.

One-on-one marketing proposes thinking about a segment of size one (Peppers and Rogers, 1993, Pine, Victor and Boynton, 1993). Given the new capabilities of addressing each individual (Blattberg and Deighton, 1991) the goal is to customize the marketing mix in accordance with the needs of a consumer. Relationship marketing takes a long-term orientation in targeting as opposed to a short-term transactional orientation (Dwyer, Schurr and Oh, 1987, McKenna, 1991, Sheth and Parvatiyar, 1995). The idea is to understand the lifetime value of the customer and allocate resources in accordance with these values (Day, 2000). The emphasis is on retaining existing customers rather than on obtaining new ones (McGahan and Ghemawat, 1994).

However, since one-on-one marketing and relationship marketing both propose marketer-initiated targeting, several problems arise. For example, consumers receive an excessive volume of proposals for relationships with firms, they do not perceive control over the terms of the relationship and do not perceive much value addition from such relationships. As a result, these techniques breed consumer cynicism (Fournier, Dobscha and Mick, 1998). This is especially a problem with the Internet because the marginal cost of sending an additional promotional message is nearly zero for the firm(Shiman, 1996).

Moreover, as pointed out by Martin and Clark(1996), these ideas do not account for relationships among consumers. Similarly, Kozinets(1999) has noted that the influence of other members of a community on a individual consumer must be taken into account when planning a marketing strategy on the Internet.

The vast WOM literature, for the most part, presupposes the existence of social networks. Put otherwise, this literature mainly studies the dissemination of messages, conditional on the existence of a network. Moreover, the focus on networks has obscured the face of the individual consumer. As noted by Frenzen and Nakamoto(1993), pg. 374-

> "So much attention has been paid to the structure of relationships in a network that the nodes have been reduced to mere intersections- artifacts, so to speak, of the larger structures. ... They are so invested in the pursuit of structure that they may suffer an incapacity to recognize the role of the individual. Such an incapacity, we argue, is particularly problematic in market contexts where the individual plays an obvious role in market operations."

There is a small, but important, body of research conducted by teams of researchers headed by Prof. Charles Martin and Prof. Steve Baron that has looked at consumer-to-consumer relationships. Martin and Clark(1996) provide eight important axioms of customer-to-customer relationships that act as an important starting point. We will restate these as four important facts:

Fact 1: For most companies, the volume of customer-to-customer interactions is greater than customer to employee interactions.

Fact 2: Consumers purchase decisions and shopping or service experiences are routinely affected by other customers.

Fact 3: Consumers find the recommendation of a fellow consumer more credible than the suggestion of a company employee.

Fact 4: Consumer-to-consumer relationships are ill-defined, hard to control, constantly changing and organic.

Martin and colleagues have originated the concept of customer compatibility management (Martin and Pranter, 1989, Pranter and Martin, 1991, Martin, 1995). For example, Martin(1995) found that individuals are more likely to enjoy a restaurant experience if other consumers are clean and well behaved. Consumers are thought to be of three types- privacy seekers, friendship seekers and receptives (Goodwin, 1994). Martin and Pranter(1989) note that the compatibility among consumers is very important wherever customers are expected to share.

Others have pointed out that encounters between consumers are likely to take place even in a sterile self-service type environment (Harris, Baron and Ratcliffe, 1995) and that most encounters among consumers in a retail setting are positive (Parker and Ward, 2000).

In our view, the literature has made a distinction between private social networks and public communities. This is important to note since we are proposing that P2P marketing subsumes both types of consumer collectives. We shall refer to this larger term as the consumer web.

Social networks refer to a relational web of people with whom one has strong ties, where the names of people are known to all and the relationships exist outside of the online space as well. The main example of this would be a privately held e-mail address book. Online communities, on the other hand, involve anonymous interaction, issue-based affiliation, no tie outside of online space and weak ties (Kozinets, 1999). Examples include allrecipes.com and Slashdot.

Traditionally, the word of mouth literature has focused on existing social networks. For example, negative word of mouth in response to a bad service experience is seen as being spread to one's family and friends (Singh, 1988). The Internet has expanded personal social networks and has enabled large-scale contact and greater interactivity. The on-line community literature (e.g. Kozinets, 1999, Kim, 2000) tends to focus on public interaction. This is largely a new form of interaction. With earlier technologies, consumers could make a public statement- e.g. take out an ad in a newspaper. However, the prohibitive cost of these actions limited the extent of these activities. With the Internet, these interactions have become commonplace. The customer-to-customer relationship literature tends to focus on public interaction between relative strangers and hence, it is more comparable with the online community literature.

The role of the company in these two types of collectives is also different. In the case of on-line communities, there could be an explicit role for the company. For example, communities could form around the brands of a company- e.g. Harley Davidson, communities can be hosted on the website of a company. However, with social networks, the most common interaction is between the company and one consumer- e.g. through an e-mail product notification. The company does not control what happens after that. The consumer could take an active interest in the message and pass it on to others or not. Put otherwise, in social networks, the company-consumer interaction is private whereas in online communities, the interaction is public.

The Impact of the Internet

As many scholars have pointed out, the Internet is a discontinuous innovation that has disrupted people's lives by changing the way they shop, the way they interact with others and the way they work. Clearly, p2p marketing would not be a reality without the Internet. Here, we describe the elements of the Internet that facilitate p2p marketing.

The main advantages of these technologies over previous ones (e.g., telephone, fax) have been described elsewhere (e.g. Hoffman and Novak, 1996). Here, I shall summarize the main ideas-

1. Ease of large-scale contact.

   With many Internet communication technologies such as e-mail, Instant messaging and chat, the marginal cost of sending out an additional message (Shiman, 1996) and the marginal cost of addressing an additional individual(Krishnamurthy, 2000) are both nearly zero. As a result, individuals can easily contact others in large numbers. Moreover, this contact is frequently instantaneous.

2. Many-to-many Communication.

   Previous "broadcast" technologies excelled at one-to-many communication. The Internet enables many-to-many contact (Hoffman and Novak, 1996) leading to rich interaction among many users (Kozinets, 1999). This characterization implicitly includes interactivity- not only between firm and consumer, but also between consumers.

3. Anonymity of Interaction.

Many of the new technologies allow for anonymous interaction. For example, users can participate in an online community that has been assembled to discuss a specific interest without disclosing their identity(Kozinets, 1999). This enables a more uninhibited form of communication. However, it also creates problems- e.g. The incentives of the person who is posting a message are not known. In some cases, companies have been known to masquerade as consumers to influence members.

Social networks exhibit the first two qualities whereas on-line communities exhibit all three.

P2P Marketing

As described in the introduction, p2p marketing is defined by three elements- consumer collectives conducting tasks usually performed by firms, diminished firm control on the marketing process and customer empowerment by the end of isolation. In order to illustrate this point, in Figure 1, we describe a range of marketing functions and how the traditional approach differs from the new P2P approach.

[Insert Figure 1 About Here]

In the next few sections, we discuss each marketing task individually.

Product Development

There are three levels of thinking in the new product development process. In level 1, the firm is seen as the producer of the product and the consumer's role is mainly seen as the purchaser. In level 2, there is a spirit of collaboration or co-creation in the process. Finally, in level 3, consumers are seen as solely developing the product with firms scrambling to determine their appropriate role.

Traditionally, the product development process is conducted mostly within the company. This may even sound like a truism- firms produce products and consumers buy them. Typically, the firm generates concepts, pre-tests it, develops the product, test markets it and finally, rolls it out nationally (Crawford and Crawford, 1996, Rosenau, 1996). The consumer is merely consulted from time to time in this process to verify that the product is consistent with his or her need set. Recently, scholars have called for a greater recognition of the voice of the consumer in the new product development process through programs such as quality function deployment (Griffin, 1992).

The next stage of thought is co-creation. Co-creation marketing envisions a system where marketers and consumers participate equally in shaping the marketing mix (Sheth, Sisodia and Sharma 2000). In the words of Sheth and colleagues, "Co-creation marketing enables and empowers customers to aid in product creation (e.g., Gateway computers), pricing (e.g., priceline.com), distribution and fulfillment (e.g., GAP store or GAP online delivered to the house), and communication (e-mail systems)". Gilmore and Pine II(1997) had also earlier identified collaboration between marketers and consumers as a legitimate means of customizing the product offering.

The logical next step in this continuum is product development fully managed by consumers or community-based product development. The Open Source Software movement (www.opensource.org, http://www.fsf.org) is the most well known exemplar of this.

Consider the most famous example of Open Source Software- LINUX. As described in Moon and Sroull(2000)-

> Linux is a PC-based operating system (OS) that has been produced through a software development effort consisting of more than 3,000 developers and countless other contributors distributed over 90 countries on five continents. It is difficult to provide a precise estimate of the number of programmers who have contributed to Linux. Published estimates range from several hundred to more than 40,000 (Shankland, 1998; Raymond, 1999). In its first three and a half years of development (November 1991 to July 1995) more than 15,000 people submitted code or comments to the three main Linux related newsgroups and mailing lists. In the next three and a half years, thousands continued to contribute code and hundreds of thousands of people joined electronic discussions about Linux

> philosophy, applications, competitors, business models, and so forth. ..
>
> As of December 1998, more than eight million users were running Linux on a wide variety of platforms. Linux was estimated to have 17% of server operating systems sales in 1998 and was projected to have a compound annual growth rate of 25%, 2.5 times greater than the rest of the market (Shankland, 1998; Berinato, 1999).

Perhaps, the most fascinating aspect of LINUX is its performance. The general argument against voluntary production arrangements such as LINUX is that the quality would be poor due to inconsistent participation and low resources. For example, developers may vary in their production abilities. Moreover, since the producers are giving their time voluntarily, this is seen as an altruistic act to enhance the public good. As a result, the motivation of producers is expected to be lower. However, LINUX has demonstrated that its performance is comparable to the operating systems made by industry giants such as Microsoft and IBM(Prasad, 2000). Once again, Moon and Sroull(2000) report that-

> It(LINUX) was widely regarded as being of very high quality and reliability. According to 1998 internal Microsoft documents assessing the potential threat from Linux, the Linux failure rate was two to five times lower than that of commercial versions of Unix (Valloppillil, 1998). In both 1997 and 1998 Linux won the Info World Product of the Year award for best operating system; in 1997 it won the InfoWorld Best Technical Support award.

LINUX is by no means the only open source software program. Other well known examples include Netscape, which made its source code available, and IBM's Apache webserver. In fact, the Open Source

Software movement has become very well defined- interested readers are referred to the definition at- http://www.opensource.org/osd.html.

While it is clear that customer collaboration can occur for products such as software due to the solitary and modular nature of production, our argument is that customer-led production applies to all digital products. An example of this is community news services such as Slashdot (www.slashdot.org) which is entirely member supported. News on such sites constitutes links to stories that appear elsewhere on the Internet or opinion/commentary. All news is entirely contributed by participating members. Peer review and article rating systems are used to ensure quality(Priestly, 1999).

Message Dissemination

Most modern marketing textbooks prescribe the awareness-consideration-choice-loyalty structure for building sales. First, one must make a large number of consumers aware of the product or service. Then, consumers must take the brand seriously enough to include it in their consideration sets. Next, the brand must be chosen over its competitors and finally, a satisfied experience must lead to loyalty, i.e., repeat purchases.

Making the appropriate target market aware of one's product remains one of the biggest marketing challenges. This continues to be a problem on the World Wide Web. Clutter is a big problem on the World Wide Web. It is now generally agreed that there are at least 600 million web pages (http://research.compaq.com/news/map/www9%20paper.htm). The search engine, Google, claims to index over a billion pages. Locating the page that meets one's needs could be like locating a needle in this very large haystack.

Search engines (e.g. www.google.com) and Internet portals (e.g. www.yahoo.com) were attempts at helping consumers navigate through this clutter. But, when individuals search for information at these places, they are presented with hundreds of selections. Consumers will not go through all selections and are most likely to focus on the first few results. Hence, search-engine optimization has become an important research area (Bradlow and Schmittlein, 2000). However, due to heterogeneity in the algorithms used by search engines, it is not always possible for one's site to be featured in the top few.

Therefore, it is clear that search engines alone will not help consumers find sites relevant to their needs. Increasingly, search engines tap into smaller and smaller fractions of the overall Web(Lawrence and Giles,

1998) with no engine capturing more than 16% of the Web content(Lawrence and Giles, 1999).

Banner advertising and sponsorships were tools that were considered to have the potential to provide consumers with relevant information. However, despite the early promise detailed in pioneering research(Hoffman and Novak, 1997), the click-through rates have not improved. Average rates are in the 0.5% range. Banner advertising is also plagued with measurement problems. Getting a reliable estimate of the number of consumers who viewed a banner is a big challenge(Dreze and Zufryden, 1998) and so is reliably identifying the top websites globally. Moreover, a recent eye-tracking study presents troublesome evidence that Internet users may "actually avoid looking at banner ads during their online activities" (Dreze and Hussherr, 1999). If this is true, then placing banners around web content may be a poor way of delivering the message.

Due to these problems with search engines, portals, advertising and sponsorships, word of mouth communication among consumers for large scale market acceptance is seen as a key tool. This is now referred to as viral marketing (http://www.drapervc.com/files/viralmarketing.html).

Viral marketing proposes that messages can be rapidly disseminated from consumer to consumer leading to large-scale market acceptance. There are three “flavors” of viral marketing:

1. *Incidental contagion*

   In this case, the consumer is not explicitly made aware of his or her role in the message dissemination process. Consumers sign on to a service and in the process of using the service unwittingly increase the awareness of a product. Consumers do not perform any special promotional tasks and do not receive any reward.

   Hotmail is a classic example - it grew by leaps and bounds by doing something simple. At the bottom of each email message, there was a small line promoting Hotmail - "Get Your Private, Free Email at http://www.hotmail.com." The recipient of the message quickly understood that s/he could get an account easily by visiting the hotmail website. This led to phenomenal growth - more than 12 million people signed up in the first year and a half. Hotmail had spent only $500,000 on marketing and promotion during this period- an acquisition cost of about 4 cents per customer.

2. *Contagion due to transaction consummation*

Typically, in this case, the firm makes an attractive product available for free provided all interested parties register for the service. Put otherwise, in this case, the service is made available to individual x only if others (ranging from one other person to many others) sign up. As a result, individual x has an incentive to persuade others to sign up as well leading to rapid growth. The two classic examples of this are ICQ and Paypal.

Real-time chat service ICQ (short for “I seek you”) signed up 12 million users by using this approach. In order to chat with your friends, they had to have the service too. Those friends signed up their friends and ICQ eventually sold out to AOL for about $300 million.

More recently, PayPal, which allows users to make small payments to one another online, followed a similar path by paying its early users $10 to sign up, and a few more dollars for each new member they referred. People liked the service, and it pulled in more than 3 million users in its first nine months. Once a critical mass was reached, PayPal scaled back its payments to $5.

3. *Consumers as professional recruiters.*

In this case, consumers are encouraged to contact others and inform them about the product. There are two different versions of this. In the first approach, no incentives are provided to the consumer. For example, it has become very common on the Web to place a “tell your friend” icon right next to a product display or a news story. The second approach is perhaps the most aggressive. In this case, an explicit incentive structure is set up to reward consumers who bring in most traffic. For example, epidemic.com encourages consumers to recruit their friends with an explicit incentive structure.

Viral marketing, therefore, essentially offers a new way of message dissemination. Clearly, incidental contagion and contagion due to transaction consummation are new. It may be argued that the third approach is similar to some of the traditional referral programs and pyramid schemes. Interestingly, the greatest successes have been reported in the first two categories!

Product Evaluation

Frequently, it is hard to assess the quality of a product prior to purchase. This is especially true with products that have experience attributes(Nelson, 1970) where the quality cannot be ascertained until the product is actually consumed. e.g. movies, day care services. In such cases, the product-related communication from the company is unreliable since the company has an incentive to only praise the functionality of the product.

Therefore, in order to reduce the risk in purchasing a product, consumers are likely to rely on the advice of others. For example, consumers may pay attention to product reviews written by critics (Eliashberg and Shugan, 1997). Alternatively, consumers may hear from their peers. As noted earlier, in many cases, consumers find advice from their peers very reliable and are likely to act on it (Martin and Clark, 1996). Consumers differ in the extent of market knowledge. For example, market mavens who have vast information about products and market processes are likely to help consumers they know decide on the right product (Feick and Price1987).

In the past, consumers could rely only on their personal social network. Since it is not possible for someone in your social circle to have always tried a product before you, there is a market for a larger community that one can rely on for product evaluation. ePinions.com is a striking example of a site that collects customer feedback on a variety of products. Since this is an online community where the actual identities of consumers are not revealed, the reviews written by consumers are peer-reviewed. Those writing the most reliable and useful reviews receive the highest ratings and are most sought after.

The firm also offers an interesting feature- a web of trust. If you like one particular reviewer, you could include this person in your web of trust. Then, everybody whom this person trusts is automatically included in it- but the web remains anonymous. Over time, you could potentially develop a large web of trustworthy reviewers that you could rely on.

Product Purchase

Consumers have bought from one another regularly. Examples include yard sales, Tupperware parties, used car sales, classified newspaper ads etc. However, prior to the Internet, individuals had access only to local markets and small social circles. Now, due to the Web and e-mail, suddenly consumers have access to a national and in some cases, global marketplace leading to unprecedented access to other consumers. This is especially significant for unique items (e.g. collectibles, antiques) that may have a small local audience, but a large audience worldwide.

Auctions have become a pervasive form of exchange on the Internet (see Herschlag and Zwick, 2000 for a detailed survey of auctions). eBay is the most prominent example of consumer-to-consumer auction activity(Bradley and Porter, 2000). Traditionally, auctions have been reserved for the higher value item such as art or antiques. As a result, the average consumer did not have the chance to participate in auctions. But, with forums such as eBay, individuals can easily offer items for sale as well as bid on a variety of auctions.

The phenomenal success of such auctions on the Internet has puzzled scholars somewhat. As pointed by Gottlieb(2000a), auctions do not necessarily lead to higher prices for the seller and buyers can fall prey to the well known “winner’s curse”. One theory put forth is that auctions provide an interactive and entertaining method for purchasing products. As noted by Landsburg(1999), even though the optimal strategy suggested by economic theory for second price auctions would be to bid at one’s reference price and then do nothing, the urge to monitor bids and make changes is irresistible. As a result, eBay is one of the sites that consistently reports a high value for average visit time or stickiness.

A more interesting form of consumer coordination is seen in group buying business models such as Mercata and Mobshop. Figure 2 provides a pictorial description of the process followed by these firms.

[Insert Figure 2 About Here]

These two companies encourage consumers to coordinate with others to achieve a lower price. Classical demand and pricing theory assumes a marketplace where there is little to no coordination or interaction among consumers(e.g., Hicks, 1956). Most business-to-consumer commerce, therefore, takes place in a posted-offer environment (Davis and Holt, Chapter 4). This is true both for bricks and mortar stores as well as e-tailers. The seller states a price and buyers can either choose to buy at that price or not. Of course, the prices can go down in the event of a sale or promotion (e.g., Blattberg and Neslin, 1990). But, this reduction in price is at the discretion of the seller. Individual buyers rarely collude to obtain a lower price, even though such arrangements are common in business-to-business commerce (e.g. through a raw material purchasing alliance- see Young, Gilbert and McIntyre, 1996 for a review).

Therefore, what Mercata and Mobshop are offering is a unique opportunity for consumers to break the structural asymmetry of posted-offer markets. However, at this point, these firms leave a lot to be desired. For example, a survey found that these firms had lower prices only for low-value items, but not for high-value items. Similarly, the purchase of the goods by these e-tailers is not dictated by demand- goods are bought ahead of time (Gottlieb 2000b). Moreover, at the time of writing, Mercata has decided to close operations due to insufficient funding. Perhaps, the success of future efforts will be based on the lessons learnt from these early business models.

Digital Product Sharing Mechanisms

The Internet has provided several file-sharing mechanisms. At the most basic level, an individual can send a file as an attachment in e-mail or use services such as driveway.com or ofoto to share files with others. However, the most attention in recent times have been devoted to mechanisms such as Napster and Gnutella which facilitate large-scale sharing of copyrighted content such as music. This has been due to the large number of individuals who have agreed to participate in these services- the Napster user base is at least 38 million.

Producers and distributors of digital content have recognized that if this takes place on a large scale it can weaken their position in the marketplace by reducing demand. As a result, these sites (especially, Napster) have become the focal point of a legal battle.

Interestingly, however, there does not seem to be any evidence supporting the demand reduction thesis. For example, Fader(2000) reports that in a survey of 1605 respondents, 28.3% of users said that their music purchases had increased with the use of Napster. The vast majority(63.6%) of users indicated that their purchases are about the same and only 8.1% of users indicated a decline. Hence, Fader(2000) argues that Napster is a sampling mechanism that leads to increase in the overall market demand.

This is not a new argument. Economists have argued that for software where the value to the user increases with the installed base, software piracy may play a vital role in market expansion(Conner and Rumlet, 1991, Katz and Shapiro, 1986). In this way of thinking, piracy essentially becomes a form of free sampling that enhances market size by converting hesitant potential users into actual users(Mahajan, Muller and Bass, 1990).

Others have argued that Napster is not a new cultural phenomenon. For example, Sheen Levine argues in Knowledge from Wharton(2000) that the Internet has always had a culture of sharing and Napster is really a movement rather than a business. In this way of thinking, Napster represents a community of users who each buy into the notion of sharing what they have for the good of all members. Interestingly, Adar and Huberman(2000) argue that such a notion of shared community may not represent the reality in at least one version of Napster- Gnutella. They find that nearly 70% of Gnutella users do not share files and nearly the top 1% of sharing hosts returns 50% of all responses. Hence, they argue that these sort of sharing arguments may simply deteriorate over time due to extensive free riding and hence, limited supply of material.

Overall, the digital product sharing models have emerged as a key player in the distribution channel for digital content. While some of the producers have adopted a legal approach to safeguard their position, others have tried to work with these services. For example, Bertelesmann AG, one of the top five music distributors in the US, has signed an agreement with Napster to work towards a digital sharing service where individuals would pay for content. However, this has been greeted with skepticism by industry observers (e.g. Levine).

The current thinking is that these sharing mechanisms are here to stay(Dou and Bristow 2000). An indicator of this was the announcement by Intel indicating that they would come up with products that would incorporate peer-to-peer sharing ideas.

New ways of providing feedback to companies

Consumers complain when they are dissatisfied with the product or service offering of a company. The dominant paradigm to understand the incidence of consumer complaints is Hirschman(1970)'s theory of exit vs. voice. Since then, notably Singh(1988) has identified three possible actions of a dissatisfied consumer- voice which refers to any communication with the firm, private actions which includes negative Word of Mouth and exit from the relationship and third-party actions which includes complaints to formal agencies. The conventional wisdom in this literature is that consumers who adopt the voice dimension are valuable to the company since they can be recovered. Hence, firms must encourage consumer complaints so that they can create a customer focused culture.

Our argument is that the Internet has transformed consumers into public relations professionals who can advocate against a firm through public actions. These actions come in three flavors.

At one end of the spectrum is the individual public action- e.g., a consumer may run a website where he or she decries the firm and/or its actions- see http://www.concentric.net/~rodf/mart.htm, for instance. The next level may be communal public action. For instance, a consumer may enter a public discussion board and post his or her complaint there. Similarly, there are forums such as eComplaints.com where a consumer can view other's complaints *and* the firm's response to those complaints. This presents a tangible means for a consumer to form an opinion of the perceived responsiveness of the seller. As noted in Singh and Wilkes(1996), consumer perceptions of the effectiveness and efficiency of complaint resolution are vital determinants of actions.

The strongest variation would be political/advocacy public action where consumers can organize to protest the activities of a firm or even the very existence of it. An excellent example of this is www.mcspotlight.org (please make sure you do not type .com), which acts as a clearing house for people against McDonalds. Interestingly, the site is maintained completely by volunteers in 22 different countries.

Discussion and Conclusion

In this paper, we have argued for a new form of marketing called person-to-person marketing where consumer collectives take over tasks traditionally conducted by firms leading to firms losing control over the process and consumers feeling empowered.

This is not necessarily "bad" for firms. In many cases, consumer collectives will take over tasks that are costly and inefficient for the firm to undertake. By doing so, the firm is freed to focus on tasks that it is good at- i.e., product innovation. For example, viral marketing may reduce the need for mass advertising leading to savings in customer acquisition. In other cases, due to the proactive role of consumer collectives, the burden on the firm is reduced. For example, if peers provide detailed and useful reviews of products, the need for customer service may be reduced. Similarly, Fader(2000) has argued that Napster must be viewed as a sampling strategy that expands the market since most consumers who listen to a song on Napster also buy a CD.

The important thing is that firms will not be able to control this process, i.e., they will not be always in a position to dictate which tasks will be performed by consumers and which will not. They can try to influence the process. However, outcomes will not always be what they may like. Smart firms will then learn to listen in to the market conversation and adapt rather than attempting to dictate the conversation.

Similarly, P2P marketing is not necessarily all “good” for consumers. Quality of information will continue to be a major issue. In public online communities where anonymous interaction is common, the incentives of each individual in the conversation are not always known. For example, a company can masquerade as an impressed consumer and praise the product. In open source product development, several versions of the product may develop that each support different features. With no or weak central control, standardization will not be possible leading to such problems.

P2P marketing would not be possible if there was no Internet. Hence, only consumers who have access to the Internet are likely to benefit from the increased empowerment. Those who are on the wrong side of the digital divide will not reap the rewards(Hoffman, Novak and Schossler 2000). In fact, P2P marketing may create a new elite who has greater market power because of the greater ability to be part of collectives.

The overriding objective of this paper was to identify P2P marketing as a major event in the marketing landscape. Future research must continue to study these emerging businesses and their impact on marketing.

Figure 1
Comparison of P2P and Traditional Approach

Marketing Function	**Traditional Approach**	**P2P Marketing**	**Role of Consumer**	**Example of P2P**
Product Development	Within Firm	Community based	Producer, Designer	Slashdot, Open Source Software (e.g. Linux)
Message Dissemination	Advertising, PR	Viral Marketing	Public Relations Executive	Hotmail, Paypal
Product Evaluation	Advertising, Sales	Peer Feedback	Critic, Salesperson	ePinions.com
Digital Product Distribution	Channels	Peer-to-peer sharing	Distributor	Ofoto, Gnutella
Product Purchase	No coordination	Coordinated Purchase	Buyer, Seller, Organizer	Mercata, eBay
Customer Feedback	Private	Public	Critic, Public Relations Executive	eComplaints, Disneysucks.com

Figure 2
Summary of Group Buying Models
(Source: Mercata White Paper at www.we-commerce.com)

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