Viewpoint

Viral marketing: what is it and why should every service marketer care?

Introduction

Viral marketing describes how marketers can leverage relationships among consumers (Martin and Clark, 1996; Harris et al.*, 2000) using the Internet to increase brand awareness and market share in a short period of time on a shoestring promotion budget.*

Hotmail is a classic example. It grew by leaps and bounds by doing something simple. At the bottom of each e-mail message, a tagline was attached that said: "Get your private, free e-mail at http://www.hotmail.com". The recipient understood that he/she could get an account quickly and easily by visiting the Web site. Moreover, the receipt of the message in, and, of itself was a powerful indicator of the effectiveness of the service. This led to phenomenal growth – more than 12 million people signed up in the first year and a half. Hotmail spent only $500,000 on marketing and promotion during this period – an acquisition cost of 4 cents per customer.

Real-time chat service ICQ (short for "I seek you") signed up 12 million users by using a viral marketing approach. Communication was possible only if both the sender and receiver had access to the service. As a result, interested consumers signed up their friends leading to the phenomenal growth. 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. The company acquired more than three million users in the first nine months of its existence.

Why should service marketers care?

In the three examples described above, managers of a new Internet service achieved phenomenal customer traffic levels in a short period of time with a paltry marketing budget. In all cases, consumers did the actual promotion by intimating others of the service.

There are two reasons why viral marketing applies mostly to service organizations. First, as most marketing textbooks will tell you, services are intangible – they cannot be seen or felt before the purchase is made. This is especially true on the Internet where frequently there is no face-to-face interaction with the service provider.

Second, because of this intangible nature of services, consumers trust those who have tried a service previously. All of us are more likely to trust a service provider if a close friend or co-worker recommended it to us. We also know that consumers are more likely to trust a close friend rather than a company representative (Martin and Clark, 1996).

Two types of viral marketing

There are two forms of message dissemination on the Internet – private and public.

In the private case, an individual communicates information about a service to his or her social network of friends, family, co-workers, etc. This may be done through e-mail or a "buddy list" on Instant Messaging.

The alternative is to spread the message in public forums, e.g. chat rooms, mailing lists, online clubs, online communities. There are also several forums on the Internet explicitly designed to elicit customer feedback either on a variety of products and services, e.g. ePinions.com, Planet Feedback or on one company, e.g. www.mcspotlight.com These are relatively anonymous forums where individuals interested in a topic come together to form an online community. The message is posted to "those who are interested" rather than to a specific group of people.

Isn't this just word of mouth (WOM)? What's new?

By this time, most readers must be wondering how all this is dissimilar from the extensive WOM literature in marketing (e.g. Brown and Reingen, 1987; Frenzen and Nakamoto, 1987; Haywood, 1989). I would submit that viral marketing represents a different phenomenon because of two new factors.

First, we now have unprecedented connectivity among individuals due to technologies such as e-mail. Entire social networks have migrated to the Internet. As a result, individuals can easily and instantaneously intimate everyone they know about a service that they are excited about. The level of reach and immediacy is only likely to increase given the ease of building mailing lists on the Internet.

Second, WOM has traditionally referred to an individual intimating his/her private social network. It is generally agreed that few individuals actually bother to complain to the media or a consumer rights watchdog, e.g. the paper by Harrison-Walker (2001) found that only 2.5 percent of the surveyed consumers behaved in this way. This has been the case in the past due to inaccessibility and costs. For the first time in our history, it is now possible for individuals to communicate their opinions to a large subset of the general public.

When would viral marketing work best?

Viral marketing works well for some service organizations and not for others.

First, it works well for situations when you care about quantity rather than quality of traffic. It is ideal for markets where there is not too much heterogeneity in the lifetime value of customers. If you are operating in a market where a small proportion of the market has a very high lifetime value per customer, viral may not work well. You would be better off targeting the high-end.

Second, viral marketing works well for unique service offerings. From the anecdotal evidence, we find that this new technique works for services which have a strong value proposition (e.g. free e-mail) and that are "market makers" or discontinuous service innovations.

What can be done to manage the viral marketing process?

While viral marketing offers an organic, customer-led path for growth, it is certainly something that requires continuous managerial oversight. We *would suggest that managers interested in this new technique start off by thinking about three things – some of the prescriptions mentioned in the WOM literature, e.g. Haywood (1989), certainly apply.*

First, pick the initial recipients of the message carefully. The whole viral marketing process starts off with the first few message recipients. They have to pass the message on to others who will then pass it on to others, etc. These viral pioneers must be popular (i.e. have access to large social network), be influential (i.e. have persuasive power over others) and be representative of your target market. One of the mistakes that firms make in putting together viral campaigns is to choose these individuals out of convenience (e.g. the friends of employees) rather than by any strategic consideration.

Second, pick the message carefully. Design a message that communicates the value proposition clearly and simply. Make it easy for consumers to pass the message on to others. Strive for methods that will ensure consistency of the brand image. If you are going to provide consumers incentives for passing on the message, think about how it will affect the final results. For example, incentives can reduce the credibility of the sender in some cases.

Third, put control mechanisms in place. Think about how you will measure the impact of your viral marketing campaign. One simple way of doing this may be to ask new customers where they heard about your service. You must constantly monitor how consumers are spreading the message. Many companies have now hired full-time employees who constantly monitor public forums to see what is being said about them.

As with any other form of promotion, viral marketing will work for products that offer genuine value to consumers. If the product is bad, viral marketing can sink it very fast. Also, viral marketing can bring people to your door-building loyalty and repeat-business is another story.

Conclusion

Viral marketing presents a new way of building customer traffic by leveraging customer-to-customer relationships. When done right, it has the potential to lead to explosive growth in the customer base and rapid acceptance of the product.

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