



White Paper
Viral Marketing Best Practices

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1. PREFACE

The purpose of this white paper is to define the best practices in viral marketing to help marketers extend their marketing arsenal by incorporating viral marketing within their organization.

The focus of this white paper is not on brick and mortar viral marketing programs, which are necessary, but rather on the ingredients required for formalizing and automating the online viral marketing process, and particularly, in corporate web sites, and not necessarily, in public destination web sites like portals, classifieds, auctions, job boards, etc.

We have assumed that the reader is familiar with viral marketing, its process, its applicability, its features, its benefits, its pros, and its cons. In this regard, we have provided extensive statistics in Exhibit 1, list of books in Exhibit 2, list of trade articles in Exhibit 3, and list of academic research papers in Exhibit 4.

We hope that this white paper will:

1. Demonstrate to marketers that viral marketing has become more of an interactive and collaborative science than a haphazard creative art – it is a discipline that can produce predictable and measurable results with handsome returns on the investment;
2. Convince marketers to deploy viral marketing from their own corporate web site; and
3. Encourage marketers to employ the proposed ten best practices.

2. SYNOPSIS

Despite the fact that viral marketing has been around for some time, unfortunately, due to its complexity, there are no best practices to follow and no measurements to apply to manage the process. As a result, companies have taken a *“hit & miss”* approach and have treated viral marketing more of an art than a science.

So far, viral marketing has been compared to the weather: *fairly important, but not much you can do about it*. Until recently, the majority of companies have *“left it to Beaver”*, have resorted to fake gimmicks, or have paid brand ambassadors to generate buzz, and when all else failed, they paid their way through by showering their constituents with incentives and by employing *“hired guns”*.

One of the reasons why marketers perceive viral marketing as an art is due to the lack of control which marketers adore. They wrongly believe that by offering cash incentives they could reclaim control. Little do they realize that *“paid”* viral marketing never works and invariably results into a backlash.

While viral marketing can certainly claim some great success stories under its belt despite the lack of tools, yet its record is stained with some black marks due to some failures which could be avoided in the future by formalizing and automating the viral marketing process.

Viral marketing illustrates the virus metaphor:

- **Inoculation** of the promoted meme which could be an idea, product, service, activity, job, person, company, etc.
- **Incubation** of the meme – usage of the meme by innovators and early adopters inoculated by the meme
- **Spreading** of the meme – infecting others by the meme

Viral marketing is hardly incidental or episodic. Instead, it evolves according to some basic principles concentrated on conversational values. While conventional marketing focuses on the item being promoted and attempts to **influence** through advertising which is a broadcasting paradigm, viral marketing focuses on the contagious factor and tries to **infect** through word of mouth which is a peer-to-peer paradigm.

Knowing the targeted market is usually good enough in conventional marketing, while discovering what moves the market is critical in viral marketing. Viral marketing is strategic and organic at the grassroots level. It attempts to let customers do the talking by turning them into not just sales representatives but an army of enthusiastic evangelists. Companies can now predict the spread of word of mouth by analyzing how customers interact and infect one another. It relies on both *seeding* and *referring* by focusing more on *infecting* than *influencing*.

Viral marketing ignites and fosters conversation among constituents using sophisticated Social Network Analysis (SNA) to analyze an entire Social Network and its individual nodes using graph theory analyses such as *clustering*, *centrality*, *structural equivalence*, *structural holes*, *E/I Ratio*, *small worlds*, etc. This is where viral marketing becomes more of an interactive and collaborative science than a haphazard creative art – the science of Social Networks that grew out of sociology and anthropology.

We propose the following ten best practices that cover the iterative viral marketing process: (1) positioning the item being promoted; (2) crafting the compelling message; (3) creating proper incentives; (4) establishing communications; (5) defining the rules of engagement; (6) seeding and encouraging referrals; (7) focusing on infecting more than on influencing; (8) analyzing Social Networks to identify the Mavens, Influencers, Connectors, and Spreaders (MICS); (9) simulating, launching, managing, and measuring viral marketing campaigns using a Referral Automation System that empowers a corporate web site; and (10) collecting feedback to further refine the viral marketing campaigns.

This white paper is a brief primer of those ten best practices necessary in order to adopt and deploy online viral marketing from a corporate web site.

3. POSITIONING THE ITEM

Does viral marketing apply to any product, service, activity, job, document, web site, person, or pet? The short answer is “yes” even though some items are not viral at all while others are quite contagious by their very nature such as products that: (a) resort to buyers’ emotions like movies or music; (b) advertise themselves like fashion; (c) leave traces of their usage like pictures taken by cameras; (d) become more useful as people adopt them like the telephone or the fax; (e) are compatible like software that work under an operating system; (f) are simple to use; (g) simplify things for us; and (h) are targeted – a product for everybody is a product for nobody.

People talk. We talk because we love to talk. We talk to connect. We talk to reduce risk, cost, fear, doubt, and uncertainty. We talk to learn and understand. We talk to relieve tension. We talk to entertain. Items which have a compelling reason to be talked about are usually talked about. Examples of things most talked about are people, companies, politics, religions, sex, love, songs, stories, rumors, jokes, experiences, fashion, movies, books, restaurants, night clubs, cars, hotels, vacation spots, cosmetics, drugs, etc.

On the other hand, people don’t talk much about toilet papers, tooth brushes, pens, and accountants. Clearly, there are some items that are more susceptible to word of mouth than others. Items that are talked about the most are those which are used by the great majority of people, novel, innovative, generate emotions in us, ignite our curiosity, obsess us with scarcity, tease us with mystery, and parachute an idol on us. Exhibit 1 provides a list of industries which are the most susceptible to word of mouth.

World of mouth has always existed and will always exist with or without the formalization of viral marketing. As long as there is a way of communicating, a good joke or a controversial story will propagate by itself. For example, if someone discovers the cure to cancer, this piece of news will surely travel around the globe within few minutes because the discovery is indeed extraordinary and it touches almost everyone. What about bear? There is obviously nothing interesting, special, exciting, extraordinary, novel, funny, or controversial about bear. Yet, Anheuser-Busch campaigns, especially the *Wassup* one that won the Cyber Lion award, instantly touched millions of Americans. For the next few days after airing the ad in the Super Bowl, there was only one expression that could be heard around the water cooler: Wassup!!!

Clearly, Anheuser-Busch understands viral marketing. Considering that bear is not a viral product by its very nature, Anheuser-Busch’s campaigns rarely promote their bear. The limelight is typically on a story, be it: Wassup, the frogs, college kids at the supermarket, etc. The bear is just a backdrop. Their stories are snappy, sharp, hip, cool, hot, popular, trendy, sexy, funny, etc. People can relate to their story. Essentially, Anheuser-Busch gives people something to talk about other than bear. Anheuser-Busch is a classic example of a company with highly successful viral marketing campaigns for a highly non-viral product.

The general rule is that if an item is viral by its nature then the item will most likely speak for itself and the word of mouth will kick in providing that other viral criteria are met. For example, a new restaurant with tasty food, good service, pleasant ambiance, with reasonable prices does not need much to quickly attract some clientele without resorting to any viral marketing campaign. On the other hand, if an item is not viral, then the marketer must create a contagion factor other than the product for the word to spread around. In such event, **the focus must switch from promoting the product to promoting the contagion factor**. That’s what the majority of marketers who attempt viral marketing fail to understand or fail to properly execute. That does not mean that the item being promoted is not important – quite the contrary: inherit quality and good initial customer experience are important to generating word of mouth. When word of mouth is stimulated, expectations are raised which must be met otherwise word of mouth will either die or generate negative buzz.

Once a viral marketing campaign is launched and is successful, it is very hard to stop it. Hence, if there are problems such as poor quality, low inventory, or bad performance of the corporate web site, there will certainly be a backlash.

4. CRAFTING THE MESSAGE

If a product is very viral by its very nature either because it consists of a highly contagious meme, or because of its sheer usage like in the case of an e-mail system, then there is no need for any message to tag along. The product speaks for itself and will infect others. However, most products are often boring and not very contagious. In such cases, a message about a product is as critical, if not more critical, than the product itself. The message could be about the product but not necessarily.

For example, in the case of Anheuser-Busch's campaigns, the message is never about their product but about a hilarious story or a punch line like "Wasssup" that is simple, memorable, and easy to pass along. Their message is so clever and contagious that it becomes an integral part of our culture – that's infectious to the tipping point.

The challenge to marketers is to focus on the ingredients that will make people talk and not necessary buy – in this regard, it is safer to be risky. The reality is that people often buy not because a sales representative convinced them but because they were infected by the recommendation of a trusted source (i.e., the "Proximal Cause" of purchase). Furthermore, when people have the necessary information to make a decision, they usually make it quickly (hence shortening the sales cycle). Generally speaking, conventional marketing is an advocacy paradigm that attempts to persuade. The problem is that usually, advocacy is not objective and hence not credible. That's the reason why the majority of consumers don't believe marketers. Thus, the focus should be on infecting the market, especially those Opinion Leaders, with a contagious meme, rather than influencing the market by preaching wonderful features. Therefore, the message that marketers need to craft must:

- Include a contagious meme with the properties described in section 10 below.
- Must be simple, punchy, and in a *story* form. People like to hear and tell stories but are vigilant when they hear or read a product description. Simplicity is strongly related to the velocity of diffusion.
- Come from a trusted source otherwise the recipient will treat it as advertisement, or worse, as spam.
- Resonate with the recipient by being sincere, useful, and palpable with instant gratification and compelling interest, otherwise it will be ignored even if it comes from a trusted source. In other words, there must be a benefit to the recipient, no matter what the benefit is.
- Ignite the greater good within the recipient to make him/her pass the message along to others. In other words there must be a benefit to the social network that the recipient belongs to. The more the message taps on this issue the more contagious the message is likely to be.
- Call for action on behalf of the recipient to send the message to others and/or to consummate the referral (i.e., buying the product, subscribing to the service, participating in the activity, visiting the web site, accepting the job, etc.).
- Have a shelf-life at least as long as the viral marketing campaign lasts and preferably substantially longer to leverage the benefits of the campaign. Incidentally, the shelf-life increases as the message crosses different hives and it decreases as the information becomes public knowledge.
- Must coincide with the phase in the Adoption Cycle that the product is at. For example, a message to the innovators or the early adopters must be completely different than the one targeted to the early majority or late majority. Each of those types of prospects has totally different triggers - what could be highly contagious to one would be quite irrelevant to the other.

No matter how good the message is, at the end of the day, the item must deliver and it must meet (or even better, exceed) customers' expectations. As effective as viral marketing is, it can't turn a dog into a cash cow, but it can create negative buzz much faster than positive buzz if the item falls short of expectations. Besides a message, sometimes a simple appearance or presence of the item in a strategic location, at an inflection point, or at a point of interest, could generate tremendous buzz.

5. CREATING INCENTIVES

Depending on the item being promoted, an incentive may or may not be necessary to propagate the message around. Regardless, an incentive should always be a secondary reason for referring or seeding an item with the primary reason being the item itself or its message.

It is also important to understand that incentives could have an adverse effect on referring (nobody likes to be sold out by a friend for a referral fee) and on seeding (loss of credibility when the market discovers that the heavy lifting was performed by hired guns rather than genuine advocates).

Incentives could be divided into two categories:

- **Intangible Incentives** are the most powerful, driving, and lasting rewards because they play on our inner emotions. There are two kinds of intangible incentives:
 - **Altruistic Incentives** are those who tap on our desire to help others. Indeed, we all get a great sense of satisfaction when we are in a position of helping others - it brings up the compassion in us.
 - **Self Gratification Incentives** are those that are related to our self esteem and fall within the second level of Abraham Maslow's Hierarchy of Needs. We are willing to pass along a message because of our selfish gene that gears us to care about how we look, how we are perceived by others, etc. It makes us feel good to pass along a message because others might think that we are funny, intelligent, knowledgeable, experienced, reliable, loving, helpful, resourceful, professional, etc.
- **Tangible Incentives** are especially effective when referrals occur among weak ties for certain types of items and for certain types of leads. In case of tangible benefits, marketers should decide on the following:
 - **Format** – the incentive could be redeemable points, money, free samples, discounts, coupons, prizes, awards, etc.
 - **Cause** – in some cases, marketers could take an aggressive approach by incentivizing a mere referral while in the other cases the incentive would apply only if the referral gets consummated (i.e., buying the referred product, subscribing to the service, participating in an activity, visiting a web site, accepting a job, adopting a pet, etc.).
 - **Constituents** - the incentive must be correlated to the types of referrers. For example, it wouldn't be appropriate to offer a technical gizmo to a non-technical person or to offer a female product to a male.
 - **Value** - the value of the incentive must be commensurate with the value of the item being promoted. Generally speaking the incentive should be from 1% to 20% of the value of the item being promoted.
 - **Distribution** – in case of a chain of referrals, the incentive could be distributed equally or proportionately depending on how close the referrer is in the referral tree to the lead who consummated the referral.
 - **Disclosure** – should the incentive be disclosed to the lead? Honesty is the best policy. In fact, we would argue that not only it should be disclosed but it should solicit the lead to spread the word around with the hope of earning an incentive.

6. ESTABLISHING COMMUNICATIONS

Once the item is positioned and the message is crafted, the lines of communication must be established in order for the message to travel in a Social Network.

The lines of communication could be an e-mail message, an instant message, a conversation in a chat room, or a posting on a bulletin board, forum, user group, listserv, or blog.

The lines of communication must be already established, easy to use, friction free, pervasive, fast, large, and scalable.

Obviously, one of the fastest and most effective lines of communication that meet all those criteria is e-mail systems but other communication lines such as instant messengers, chat rooms, bulletin board, forums, users group, listservs, and blogs must not be ignored.

Furthermore, it is important to be able to get a pulse of the market by mining all communication channels yet without necessarily compromising users' privacy. Here is where web analytics and web metrics are quite helpful. Some of the measurements to be considered are:

- Performance analysis
- Entry and exit points analysis
- Duration analysis
- Date, time, and period analysis
- Surfing habit analysis
- Ranking based on number of criteria such as visit, referral, interest, and consumption
- Visits log
- Number of pulses
- Number of criteria for each pulse
- Sophisticated text search capabilities with similarity, context, phonetic, and proximity searches
- Weight for every channel to determine its importance relative to the popularity and reputation factors
- Comparison of items, channels, and competitors
- Ranking
- Popularity
- Reputation with positive and negative buzz

7. DEFINING RULES

Prior to launching any viral marketing campaign, it would be wise for a marketer to establish the rules of engagement.

The fundamental value of referrals is that they come from a “*trusted source*”. Therefore, it is paramount to control the integrity and the credibility of referrals in order to really rip the benefits from a referral program.

Yet that there are two sides to the coin – the more restrictive sponsors are, the higher the integrity, but the lesser the exposure. Hence, flexibility is required to attain a healthy balance.

Here are some of the hazards that marketers need to control:

- **Spamming** by:
 - Controlling the sheer volume defined as number of leads, number of referrers, number of referrals, number of messages, and the like that a sponsor would allow overall, per item, per person, per period, etc.
 - Opting In/Out: For examples, leads could request to not be referred unless authorized, and referrers could request from sponsors to have their names taken out of their campaign lists, etc. Hence, a *White List* and a *Black List* must both be considered.
- **Pollution** by properly qualifying leads and referrers in areas such as status, profile, relationships between the parties, authorization to refer or be referred, and performance.
- **Conflict** by properly tracking the submission date and time of referrals in order to avoid disputes among referrers as to who has referred what to whom and when, and who ought to be entitled to the posted incentive.
- **Conspiracy** between leads and sponsors by monitoring, discouraging conspiracy through penalties, and encouraging transparency and disclosure through additional incentives. For example, a sponsor could offer a discount to a lead in exchange of not telling the referrer that the lead bought the product in order for the sponsor not to pay the referral fee to the referrer. Another type of conspiracy is when a competitor conspires by engaging in a negative word of mouth to sabotage the referral system and ruin the sponsor's reputation.

Marketers should consider the following categories of rules: (a) **general** rules that apply to the overall referral program; (b) **common** rules that apply to certain type of referrals, for certain items, and for certain types of users; and (c) **specific** rules that apply to only a specific item.

The rules should be flexible by allowing a marketer to define a *Severity* level to each rule. The scale of the Severity level ranges from 1 being the least severe to 10 being the most severe. For example, when a referrer makes a referral and breaks a rule, depending on its Severity level, the referral could pass, put on hold for further approval by the sponsor, or rejected. Therefore, the marketer is privy to bend the rule and let a particular referral pass. In addition, a marketer could define a *Tolerance* level consisting of the Severity Level, number of rules broken by a specific referral, and percentage of total number of broken rules.

Finally, some analyses must be provided to figure out incidents in order to adjust the rules for a better overall performance of the referral program.

8. ANALYSING SOCIAL NETWORKS

A Social Network is nothing but a network of people that are connected with each other in some fashion based on certain criteria, property, or activity. After all, we are like packed animals that can't live in isolation - we need each other to survive. Networks have been studied as mathematical objects called *graphs* since 1736. Social Networks enjoy all the mathematical properties of graph theory but they introduce some complexity due to the type of relationships that exist between individuals.

Naturally, word of mouth occurs in Social Networks in a free, non-hierarchical, un-even, multidirectional, and random flow. Word of mouth spreads much faster than the adoption rate of innovation within a product classic Adoption Cycle. Risk and lack of credibility can adversely effect diffusion of word of mouth within a Social Network. Word of mouth is nonlinear, unpredictable, and uncontrollable, but it could be nurtured and harnessed.

Viral marketing is not about social networking – an activity that allows people to connect among each other for the purpose of finding a date like in Friendster, a job like in LinkedIn, or a vendor like in Ryze. It is rather about using sophisticated Social Network Analysis (SNA) to analyze an entire Social Network and its individual nodes using graph theory analyses such as *clustering, centrality, structural equivalence, structural holes, E/I Ratio, small worlds, etc.* This is where viral marketing becomes more of interactive and collaborative science than a haphazard creative art – the science of Social Networks that grew out of sociology and anthropology.

Specifically, in the context of viral marketing, the objective of SNA is to:

- Identify the right **clusters** and the right **individuals** whom we call the MICS (Mavens, Influencers, Connectors, and Spreaders – see description below). Some of the critical questions that need to be answered are the following:
 - How often does a person talk about the item being promoted? (level of activity)
 - How many people does the person talk to about the item? (level of dispersion)
 - How much does the person know or have to say about the item? (level of knowledge)
 - How likely is the person capable of convincing others? (level of influence)
- Figure out how the **propagation** might occur
- Analyze the **spread** and the **density** of the propagation
- Complement data mining, data warehousing, and collaborative filtering to up-sell or cross-sell due to the fact that such conventional business analytics have run out of steam as the web has become a huge social network that can't be properly mined by such conventional techniques.

Understanding Social Networks, comprehending their behavior, and analyzing their properties are critical to formalizing and automating viral marketing. Social Networks have the following general properties:

- **Clusters** - Social Network are homophilic because people tend to associate with others who are similar to them or have some communality such as hobby, industry, age, race, religion, goals, etc. People may know who they know because of what they know, what they do, or what they are affiliated to, but then, people may try new things because of who they know. The more connected people are the more connected they will be and the better they will be. This principle is referred to as *Mathew Effect* coined by the great 20th century sociologist Robert K. Merton who asserted that well-connected nodes in a network are more likely to attract new links, and corollary, poorly-connected nodes are disproportionately likely to remain isolated. Ironically, while clusters can help better understand Social Networks, they could be an obstacle to propagation. On the other hand, gaining leadership within a cluster becomes very difficult for competitors to gain any market share, but by the same token, if pigeon-holed in a cluster, it becomes difficult to cross over (e.g. music artists, actors, etc.), which is necessary for real diffusion. Word of mouth tends to travel fast in circles within a cluster but slow across clusters. Clustering breeds redundancy which could hinder diffusion but introduces stability within a Social Network. In other words, the more your friends know each other, the less useful they would be to you in propagating a message to someone you don't know.

- **Market Transparency** – while Social Networks form in clusters, they cross over markets. We all belong to different clusters because we have multiple interests. While markets are organized in different sectors and segments, such divisions are artificial when it comes down to Social Networks. People that fall within a particular market category are often linked to people in other categories. Those links are invisible from a market stand point but critical from a Social Network point of view.
- **Small World** networks – while Social Networks are highly clustered – many of our friends are also friends of each other, yet we can still manage to reach anyone within a surprisingly limited number of connections (Stanley Milgram's six degrees of separation that became a pop culture folklore). The key reason is that no two individuals know exactly the same people. Practically however, anything beyond two degrees of separation is just that – separation.
- **Holes** - the lack of connections is often more revealing than their presence. Thus, Structure Hole Analysis can help figure out where word of mouth might get stuck and avoid the obvious holes.
- **Short Paths** – in order to accelerate diffusion, it is necessary to discover some of the inherent shortcuts that typically exist between individuals and between clusters.
- **Gravity** – in the real world of word of mouth, people have to be within certain physical proximity to catch the buzz. While the web has diminished this requirement, it did not totally eliminate it, especially for certain items (i.e., be global but act local).
- **Weak Ties** – there are a lot more *weak* ties in a Social Network than there are *strong* ones. Naturally, for any word of mouth to spread around, it must go through weak ties otherwise it would tend to die within a small cluster of strong ties (Stanford Professor Mark Granovetter's theory – *the strength of the weak ties*). The web nurtures weak ties, which explains the main reason why information nowadays travels at a speed of light. Clusters which have little or no connections with the rest of the Social Network will end up being isolated like islands because people in the same cluster tend to have access to the same information and are unlikely to be exposed to new ideas. This explains why it is always better to get recommendations from different clusters.
- **Large & Complex** - Social Network tend to consist of a very large number of clusters organized in a very complex topology. The sheer size and complexity of a Social Network results into an inherent security and a competitive advantage since marketers could gain market share without being noticed by competitors until too late.
- **Dynamic** – new relationships between individuals are forming all the time, old ones are abandoned often times, and existing relationships are changing some times. Not all potential relationships are equally likely – who we know tomorrow depends to some extent on who we know today. Furthermore, what we know is determined to a certain extent by whom we know, and vice versa. However, we occasionally do things derived entirely from our intrinsic preferences and characteristics that may lead us to meet new people who have no connection to our cluster.

Social Network Analysis helps identify four types of people in a Social Network for a viral marketing campaign. We call them – the MICS:

- **Mavens** are individuals who are *“in the know”*. Information is their currency. They are knowledgeable, experienced, and experts in certain fields. They are the *Alphas*, the trendsetters, the pundits, the innovators, early adopters, and the opinion leaders. They are authentic, opinionated, and cannot be easily fooled. They are typically very eager to try new things and they love exclusivity. They are obsessed in staying one step ahead of their peers. They might be the first to start trends, but they're not especially good at sharing information - they're often introspective and socially alienated. They are skeptical of marketing and demanding of business, but they hold a high opinion and loyalty of brands that they like.
- **Influencers** are individuals who have the capability of influencing others within their community due to their position, their knowledge, their experience, their wealth, their celebrity, their wisdom, their look, etc. Influencers are typically good marketers or sales people with excellent communication and presentation skills. They are very good at taking ideas from Mavens and translating them into usable and digestible information for the mainstream. There are six categories of persuasion to consider when identifying influencers: reciprocity, consistency, social proof, liking, authority, and scarcity.
- **Connectors** are individuals who are well connected within their social network. They are typically extraverts who like to socialize. They belong to clubs, groups, and associations. They are constantly networking in one form or another. They typically have a large Rolodex. Their most common phrases are:
 - *“You should talk to...”*,
 - *“I know someone who...”*,
 - *“Let me call my friend...”*.
- **Spreaders** are individuals who can't wait to tell their friends about one thing or another. They are the *Bees*. They are constantly talking on the phone, chatting in chat rooms, sending messages, posting notes on bulletin boards, etc. It gives them great pleasure, for one reason or another, to share their ideas, knowledge, experience, and expertise with others. They are the conduits through which information reaches the masses. The young, who love to buzz, are the greatest spreaders.

The messenger is often more important than the message or the item. When launching a viral marketing campaign, marketers should focus on establishing evangelists - not to be confused with celebrity endorsers. Evangelists are opinionated individuals who:

- Believe in the brand
- Loyal to the brand
- Passionate about the brand
- Promote the brand for free (they can't be bought)
- Purchase the brand for themselves
- Purchase the product as gifts to others
- Preach (not just recommend) the brand to others
- Have a sense of purpose

Evangelism exists beyond demographic and ethnographic groups, product categories, or types of services. Evangelism can be attained by:

- Constantly gathering feedback from customers
- Educating customers by sharing knowledge, experience, and expertise
- Seeding word of mouth about the brand within a marketplace
- Creating a community loyal to the brand
- Establishing a sense of purpose or a cause that is bigger than the brand or the company
- Making it easy for customers to talk about the product and to buy it

Part of the value of viral marketing is that the message propagates in a democratic manner in which messengers and recipients pick themselves. Once word of mouth gets going, it reaches those who are receptive and bypass those who aren't, which is contrary to what some believe that viral marketing is nothing but glorified spamming.

9. REFERRING & SEEDING

A viral marketing campaign requires both – *referring* and *seeding* – they complement each other. Referring is when person A recommends an item to person B, while seeding is when person A simply buzzes about an item in chat rooms, bulletin boards, blogs, etc. When asked for help, people usually respond positively because there is a certain level of altruism in all of us - it makes us feel good when we help somebody. Thus, marketers should ask their constituents for referrals which are likely to lead to sales while seeding does not necessarily lead to any purchase but simply create awareness at the grassroots level.

Typically, the buying process starts with the buyer being exposed to whatever buzz is going on about a particular product or service. The actual buying occurs only after a referral takes place. Thus, a buyer is first influenced by some buzzing activities and the decision to buy is solidified only after receiving a referral or a recommendation from a trusted source. Such sequence of events re-enforces the need for viral marketing to focus on *infecting* more than *influencing* as described below.

Seeding has a definite life span, and it can be over in a flash. Very few products are so contagious that they spread by themselves like brushfire. Most products are boring and require a lot of seeding at the grassroots level in different clusters of a social network in order to achieve any noticeable diffusion. Knowing *how*, *when*, and *where* your brand might come down is every bit as important as knowing how to build it up.

Word of mouth happens when information is distributed unevenly, which means that when certain people possess information that others don't. The moment that information becomes common knowledge, there's less of a reason to pass it on. In addition, seeding seems to occur among *weak* rather than *strong* ties. This contention is supported by Stanford Professor Mark Granovetter's theory - "*the Strength of the Weak Ties*".

People tend to live in fairly well-defined social networks. Those close to us – friends and relatives – tend to be fairly similar to us and to have similar friends to us. To the latter point, for example, our best friend's friends tend to also be our friends. An immediate consequence of this is that our friends and relatives tend to have similar information to us. In the figure below, imagine that each letter represents a person and that the dark lines are close relationships ("*strong ties*") and the dashed lines more-distant relationships ("*weak ties*"). If A gets information from C and D, then it is more likely that the information from D is "*new*" because C probably has also told B who may have already passed it on to A. The critical idea here is that new information comes from acquaintances (i.e. weak ties). The implication of this is that, to the extent a company wants to generate meaningful word of mouth, it needs to focus its efforts on encouraging people to talk to their acquaintances more than to their friends because the latter are likely to talk to each other anyway. In other words, **in order for word of mouth to be sustainable it needs to spread out to weak ties not just in one particular cluster but across clusters.**



Weak Ties in a Social Network

Seeding must be continuous and must occur more among non-loyal or least loyal constituents versus the loyal ones who should help attract the less loyal. Loyal customers would have probably told everyone (strong and weak ties) about a company's product or service. Moreover, it is likely that those in the same Social Network as these loyal customers are themselves also loyal (or at least existing) customers. Thus, the increase in word of mouth created by a viral marketing campaign has little effect on those Social Networks. On the other hand, the Social Networks informed by the less-loyal customers are far less likely to have heard about the company, its products, or its services. Thus, the incremental word of mouth from them is powerful. It is a myth that Opinion Leaders, who are essential to generating word of mouth, are a homogeneous group. In reality, Opinion Leaders are a heterogeneous group who could be key in generating word of mouth but only if they are loyal to the brand. In addition, Opinion Leaders are leaders only in a particular field. However, since the less loyal ought to be the target for seeding, then **the target should be those who are less loyal but are highly connected in a Social Network.**

10. INFECTING MORE THAN INFLUENCING

Viral marketing is about creating a virus of the mind that compels people to infect others with a *meme* which is a unit of cultural transmission or a unit of imitation. Examples of memes are tunes, ideas, catch-phrases, expressions, gestures, habits, manners, behaviors, skills, fashion, ways, means, methods, technologies, philosophies, sciences, religions, cultures, politics, activities, products, services, objects, inventions, feelings, songs, stories, etc. A meme is passed on from one individual to another. It is the cultural equivalent of a *gene* - the basic element of biological inheritance. The quality of a meme depends on three factors:

- **Fidelity** - a meme must be able to be copied accurately
- **Fecundity** – a meme must be able to replicate itself in large quantities
- **Longevity** – a meme must last long which gives it more time to replicate.

One of the main objectives of a meme is its survival by propagating like a virus. A meme, like the selfish gene, does not need to be true to survive – it just needs to be contagious. Not all memes are equal. Some are more contagious than others. Memes compete against other memes. The phrase, “*An idea is something you have; an ideology is something that has you*” nicely sums up the memetic rationale for understanding human behavior.

The most contagious memes are similar to the selfish genes whose sole existence is to replicate themselves. Examples of memes that are highly contagious are the ones that affect the part of our mind that deals with our emotions and feelings such as laugh, cry, yawn, love, faith, hope, sex, etc. If you see someone laughing or yawning, you can't help but to laugh or yawn – it's a reflex that demonstrates how our brain is wired. We only need to see a couple making love to turn us into horny sex machines. As far as faith and hope are concerned, religion has nicely filled the gap – we are obsessed by faith and religion to the point that we are willing to kill each other in the name of our faith and religion which turned out to be the greatest success story of viral marketing (when is the last time that you saw any advertising for any religion?)

The German word “*schadenfreude*”, which means “*malicious pleasure*” encapsulates how learning and telling about the frailties of others can gratify us - we all have some degree of sadism in us. Controversial issues which are considered taboo like sex, religion, and politics, are highly infectious but so as catastrophic events which saddens us but also comfort us because they happened to others and not to us. That also explains why traffic jams occur around an accident because we like to watch horrifying scenes.

Every time someone reveals a secret and asks us not to tell anybody, would be equivalent of giving us the license to spread this secret around like a brushfire – we are not good at keeping secrets. Secrecy is another highly contagious meme. “*Only her hair dresser knows for sure*” – that was suppose to be a secret between her, her hairdresser, and Clairol.

We all brag about something that we have or that we did that nobody else have or did. Exclusivity and uniqueness are good pieces of conversation because they ignite our envy.

We are touched by the extremes - anything that is wonderful, remarkable, fascinating, amazing, extraordinary, unusual, incredible, unbelievable, outrageous, surprising, shocking, revolting, and disgusting makes us talk a storm.

We like to be entertained – it's a self cleansing process that relaxes our brain. Anything that deals with music, movies, and theatres will surely get our attention.

We are very competitive, curious, and opportunists beasts. Thus, crisis, missions, problems, danger, and opportunities are all contagious memes that could spread quickly.

From a memetic perspective, the goal of viral marketing becomes one of infection not influence with the latter becoming a consequence and not the primary objective as it is in conventional marketing. With our “heard” mentality, and our inner desire to “belong”, once we are infected we are automatically influenced.

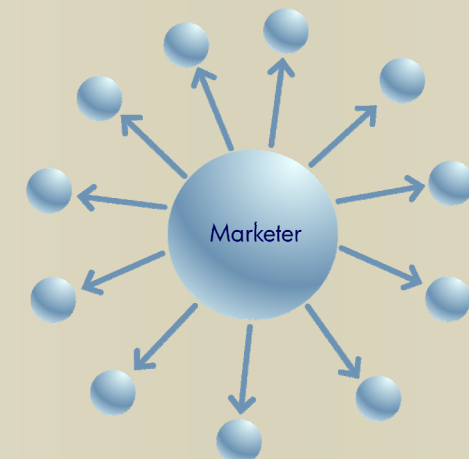
11. LAUNCHING CAMPAIGNS

"Leaving it to Beaver" is a recipe for failure because the majority of items are not viral and the majority of messages are not compelling enough to spread by themselves without a concerted effort by marketers. There seems to be a paradox: on one hand, marketers are being asked to yield control to consumers, on the other hand, they are being preached to *"not leave it to beaver"*. No wonder why marketers are confused.

In fact, there is no paradox at all. Who is spreading the word around is often as important, if not more important, than what is being spread around. Important in many ways – depending on whether the messenger is knowledgeable, popular, influencer, or connected will likely determine whether or not the message will spread, how, and for how long. Therefore, it is important for a marketer to figure out how to ignite a viral marketing campaign. It is also important for a marketer to simulate a campaign prior to launching it on a big scale. The behavior of certain individuals that represent certain constituents is likely to be quite indicative.

It is as important to be aware of the factors that make viral marketing campaigns work as much as those who make them fail such as incompatibility with the brand, irrelevance to target audience, no marketing objective, lack of sustainability or measurability, and unrealistic expectations. Building a successful viral marketing campaign hinges on identifying the right carriers of the message – *the few act for the many*. It is no longer a hit-or-miss proposition used exclusively by fringe marketers.

With conventional marketing, consisting mostly of advertising, marketers usually take control of what, how, why, and when a message is getting transmitted to the market through a given media. Essentially, it is a hierarchical one-to-many broadcasting paradigm. Consumers hear and learn only what, when, and how marketers want them to hear and learn.



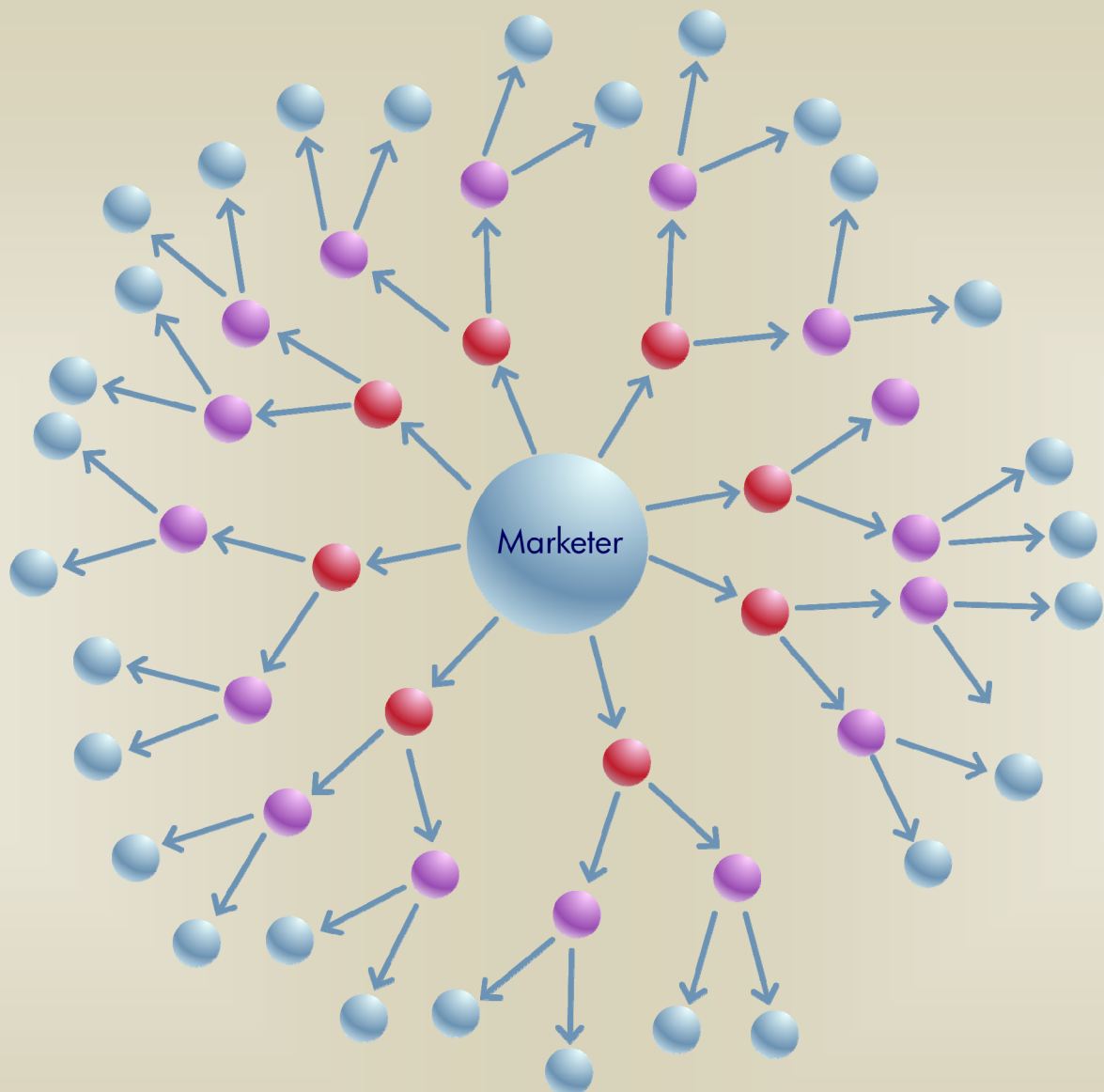
Advertising is a Broadcasting Paradigm
with Star Topology

With the advent of the web, and in particular the high popularity and the high adoption rate of peer-to-peer communication such as e-mail, instant messengers, chat rooms, bulletin boards, forums, user groups, and blogs, there is a paradigm shift - **consumers are turning their back to marketers and opening their ears to peers**. In very general terms, we are witnessing a shift from market societies toward network societies. People have become much more connected than ever before, especially young people. For instance, teenage girls interact with each other far more frequently and far more intensively than any other demographic group. By understanding the frequency and the intensity of a cluster in a Social Network, a marketer can dramatically increase the propagation.

As a result, marketers are losing control whether they like it or not. They must learn how to yield control. It is no longer about controlling but harnessing. Marketers must learn how to influence the influencers who will be doing the talking on their behalf. This is the new world order where brand come-ons sometimes are veiled to the point of opacity and where it is the consumers themselves who are lured into doing the heavy lifting of spreading the message. It is grassroots at its best. It is no longer how people are associated with the brand but about how the brand is molded to fit the people – the focus is on people and their connected world and not the brand.

Generating word of mouth for a product has been the Holy Grail in marketing circles since P.T. Barnum learned to work a crowd. But the art of generating word-of-mouth has grown far more sophisticated since the early days of simple publicity stunts. Rather than blitzing with expensive yet ineffective ads, marketers are learning to turn their brands into carefully guarded secrets that are revealed to a knowing few in each community, who in turn tell a few more, who tell a few more, and so on. The most successful products become leaders in their marketplace because of relationships established between customers and not between customers and marketers. In other words, customers – not marketers - should be the center of marketing.

On the other hand, there is nothing more disastrous in a viral marketing campaign than to discover that the influencers are “*hired guns*”. The backlash is guaranteed - the marketer who is desperately trying to control the environment by hiring brand ambassadors instead of getting genuine influencers who truly believe in the item being promoted must be blamed. Thus, marketers must learn how to walk the thin line between being clever and being deceptive. They must provide the foundation for customers to build relationships with other customers, facilitate conversations among existing and potential customers, and get out of the way.



Viral Marketing is a Peer-to-Peer Paradigm with Influencers at the Core

12. GATHERING FEEDBACK

Feedback is important for three reasons:

- **Seeding & referring:** if the feedback is positive, then an organization would want to expose it and display it for the world to see. In essence, feedback could act as a genuine testimonial which could be quite effective for seeding which results in generating word of mouth, and referring which results in generating sales.
- **Mitigating negative buzz:** if the feedback is negative, then it gives an organization the opportunity to fix complaints and therefore earn a higher level of satisfaction from its constituents, which itself contributes to word of mouth propagation. The last thing that an organization would want is to have complaints passed around and not have the chance to fix them or at least address them to counter the negative buzz. Influencers who have a problem tend to act by expressing their views. In fact, a high percentage of complaints made to call centers are placed by influencers.
- **Facilitating peer-to-peer communication** ignites or feeds the spreading of word of mouth. Due to the high level of noise that ads generate and the mistrust that consumers have towards ads, consumers are turning their back to marketers and opening their ears to their peers. Marketers should not fight this trend but rather facilitate it by empowering their web site with the proper tools to encourage visitors to talk to each other in any and all channels.

Because of such wide exposure, an organization should consider all types of feedback mechanisms such as reviews, ratings, bulletin boards, forums, chat rooms, instant messengers, blogs, guests books, voting for future developments, expressing needs, reporting errors, etc. The feedback system should have the following properties:

- Offering incentives for giving feedback.
- Self-monitoring by allowing users to critic the feedback of others, and hence gain more credibility and reliability (i.e., threads)
- Alerting users so that they would be automatically informed of certain feedback being posted by certain reviewers about certain items of interest.
- Analyzing feedback and acting on it
- Integrating the feedback system with Customer Relationships Management (CRM) system

13. MEASURING

What can't be measured can't be managed. Jupiter Media Metrix reported that 45% of online shoppers choose e-commerce sites based on word-of-mouth recommendations, yet only 7% percent of companies take the time to identify and measure its effects. No wonder why people believe that viral marketing is an art and not a science. Marketers always knew intuitively how powerful word of mouth can be but have been ill-equipped to measure its impact as a driver of sales growth because data was hard to come by in the brick and mortar world.

Harvard Business Review published an article by Fred Reichheld entitled: *"The One Number You Need to Grow."* He suggested that a customer's propensity to tell others about an item is the most important measurement in business today. He argued that a "referral value" has a much higher correlation to company performance than traditionally defined "customer satisfaction."

There are number of parameters in the viral marketing process that can and should be measured such as:

- **Number of referrals** made, consummated, ignored, and rejected along with the corresponding ratios.
- **Number of referrers and leads** involved versus the number of referrals made versus the number of referrals consummated.
- **Dimension of referral trees** in breadth and depth.
- **Number of incentives** given and their total value.
- **Lifetime Customer Value** which is equal to potential new revenue a customer represents by bringing in new business through the recruitment of others. If only 10% of existing customers bring in new customers through referrals, it can have a dramatic impact not just on sales, but on long-term profitability, as well as on the loyalty of the customers' base to the company and the brand. With such measurement, a company can intelligently decide to spend less on traditional means of increasing market share and more on cultivating existing customers as a source of new customers through referrals. A company might even learn that contribution margins are higher from customers derived through referrals than through traditional means such as advertising.
- **Amount of positive and negative word of mouth** generated about an item. Several empirical studies have shown that both positive and negative word of mouth influence buying decisions with negative word of mouth being more influential on buyers' mind than positive word of mouth. It is quite difficult, if not impossible to measure word of mouth in the brick & mortar world, but on the web, there are now tools available that allow marketers to keep track of the amount of word of mouth generated about their company, products, services, activities, jobs, and even competitors in many different channels including e-mail messages, instant messengers, chat rooms, bulletin boards, forums, communities, users group, listservs, and blogs.
- **Dispersion of an item.** It is not enough to measure the amount of word of mouth of an item because in one particular conversation, two people could be heavily buzzing about an item. That does not necessarily mean that, despite a high volume of buzz, the word of mouth is getting propagated which is an important and critical measure. In other words, there is a big difference if only few people are talking a lot about an item versus a lot of people talking a bit or a lot about an item. Numbers count.
- **Web metrics and web analytics** that could help identify web surfing behavior which could lead to more or less referrals.
- **Scorecard** on each constituent
- **ROI** from the viral marketing campaign calculated by subtracting the total cost of the campaign from the total revenues generated from the campaign.

14. FORMALIZING & AUTOMATING THE PROCESS

In addition to any advertising that a marketer might have in destination web sites such as portals, classifieds, auctions, e-commerce, and the like, it is important to empower the company's own web site with a Referral Automation System, regardless of whether the web site has a heavy or light traffic.

On one hand, if the corporate web site has indeed a substantial amount of traffic, so much the better. In this case, the marketer ought to capitalize on such traffic to monetize it by encouraging referrals and igniting viral marketing campaigns from within their own corporate web site.

On the other hand, if the corporate web site does not have much traffic, that would be a good reason to empower it with a Referral Automation System to help generate more traffic through referrals. Hence, either way, it is important and beneficial to leverage the investment made in a corporate web site and empower it with a referral system that:

- **Generates leads** and passes them along to an enterprise application such as sales force automation system or recruiting automation system, and hence, increases the quantity and quality of leads, increases revenue and profits, increases market share, and enhances branding.
- **Creates awareness** by seeding a meme and generating word of mouth about the product within a well-targeted Social Network.
- **Earns loyalty** from constituents and hence decreases the sales/recruiting costs and decrease the sales/recruiting cycles.

There are two types of referrals:

- **Page Referrals** – in this case a referral button should be positioned consistently in the same specific place on every web page to allow a visitor to easily refer the web page to someone.
- **Item Referral** – in this case a referral button must be placed at a *point of interest* which could be next to a “buy” button or next to a description of a product, service, activity, or job to allow a visitor to easily refer that item (not the web page) to someone. In case of an article for example, it is wise to place the referral button at the beginning and at the end of the article. Thus, placement of the referral button is important for an Item Referral.

A good Referral Automation System should be capable of distinguishing between different types of referrals, keeping track of referrals, incentivizing referrals, establishing rules of engagement, launching viral marketing campaigns, keeping a pulse on buzz in different channels, forecasting, collecting feedback, etc.

When and how to ask for a referral is as important as the placement of the button/link on the web page and the type of button/link placed. For example, the percentage of a referral to occur increases substantially after a good experience such as successfully accomplishing a particular function such as registering, buying a product, applying for a job, retrieving the desired record, reading the desired content, etc.

While not all referrals are created equal, some are simple while others could be quite complex and demand a lot of information, nonetheless, it is important to remember that the mechanism for referrals ought to be very simple friction free, and fast. One of the important point about the mechanism is to allow the user to easily go back to what he/she was doing prior to engaging in a referral. Therefore, the referral mechanism ought to be done in a pop-up that will disappear once a user submits the referral.

A rich user experience is important when referring. First and foremost, the Graphical User Interface (GUI) must be simple and fast. It must offer high usability. Advanced functionality could be offered but only upon request and never at a cost of creating friction or jeopardizing simplicity.

15. CONCLUSION

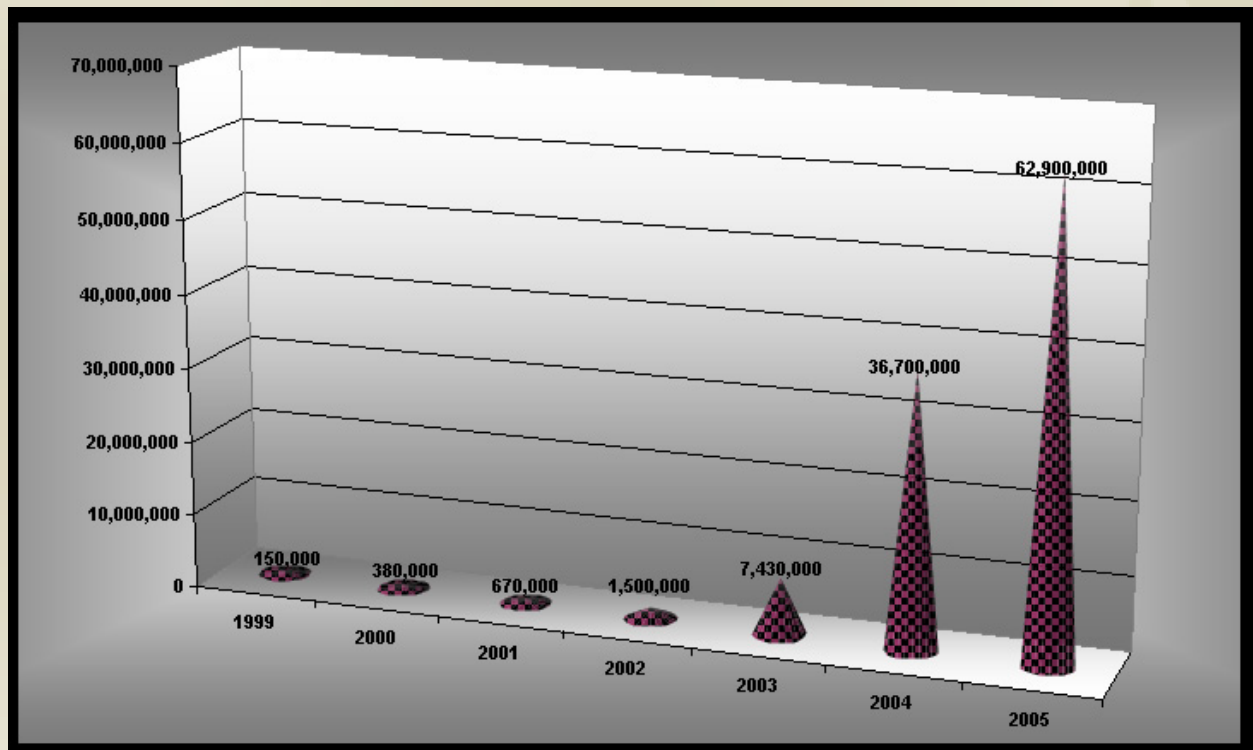
The need, readiness, features, and benefits of viral marketing have been well established for some years. To date, many companies have deployed viral marketing programs in their organization through trial and error. Some experienced great success while others have failed due to lack of a well-defined process to follow.

With the advent of the web, an ever connected world, and new technologies, the formalization and the automation of viral marketing is now feasible. Viral marketing works based on specific principles. With the better understanding of Social Networks, viral marketing has become more of an interactive and collaborative science than a haphazard creative art. In this regard, we have proposed in this white paper the following ten best practices to help marketers implement online viral marketing programs from their own corporate web site:

1. Position the item being promoted.
2. Craft a compelling message to help infect the targeted Social Network.
3. Create proper tangible or intangible incentives to ignite word of mouth.
4. Establish lines of communications which must be already established, easy to use, friction free, pervasive, fast, large, and scalable.
5. Define the rules of engagement to avoid spamming, conflict of interest, conspiracy, and pollution.
6. Seed the meme which generates awareness, and encourage referrals which generate sales.
7. Focus on infecting individuals in the targeted Social Network more than on influencing potential customers.
8. Analyze the targeted Social Network to identify the Mavens, Influencers, Connectors, and Spreaders (MICS) using Social Network Analysis that includes *clustering*, *centrality*, *structural equivalence*, *structural holes*, *E/I Ratio*, *small worlds*, etc.
9. Simulate, launch, manage, and measure viral marketing campaigns using a Referral Automation System that empowers the organization's corporate web site.
10. Collect feedback to further refine the viral marketing campaigns.

EXHIBIT 1: STATISTICS

A simple search of the expression “*tell-a-friend*” using Google resulted into 150,000 references in 1999 to over 62.90 million in 2005.



Jupiter Communications found that 57% of people visiting a new web site did so based on a recommendation. This form of communication - personal referrals - was far higher than other communication influence tested in the study giving rise to a new paradigm: “*peer-to-peer marketing*”.

A Jupiter Communications survey shows the astonishing power of referrals – 92% of consumers reported telling at least one other person about a web site referred to them by a friend, while 69% of consumers reported telling between 2 and 6 other people.

More than half (52%) of IT professional services buyers say they are most likely to make purchases based on a recommendation from a colleague. The second most reliable sources are industry analysts (29%) and industry trade press (22%).

According to a DoubleClick survey, the most popular sources of how people hear about a company, a web site, a job, a product, a service, or an activity are the following:

- Search Engine: 41%
- Guessed URL: 28%
- Referrals: 13%
- Ads:
 - Online ad: 13%
 - Print ad: 10%
 - TV ad: 9%
- E-mail:
 - Ad in e-mail: 7%
 - Specific e-mail: 6%
 - Forwarded e-mail: 5%
- Outdoor advertising: 3%

An in depth survey was conducted by Roper ASW about the sources where people get information for most common activities. Interestingly, the sources related to people (i.e., family, friends, and others) were sub-categorized in order to identify the *weak*, *average*, and *strong* ties within the social network of the people surveyed, while ads were not necessarily sub-categorized (i.e. TV, radio, or print) because it was not relevant to find out which media was more influential.

The following trends were observed:

- People continue to rely on other people to get information across all activities in all sectors, indicating clearly that word of mouth remains still the most effective way of communication and gathering of information.
- Mavens, pundits, and influentials are the second category. When people seek expert advice, they still tend to read articles or books but the web with increasingly more sophisticated search engines, bulletin boards, reviews, and the like have become the preferred way for those who are computer savvy.
- TV is emerging is the least trusted and the least sought after source of gathering information, especially for high ticket items, but remains the dominate source for entertainment related products such movies, music, sports events, etc.

Actions	Friends	Family	Other People	Web	Articles	Ads
Places to visit	49%	42%	19%	20%	34%	18%
Restaurant to dine at	68%	43%	16%	18%	19%	13%
Meals to try	57%	44%	25%	12%	45%	12%
Movies to see	43%	37%	9%	25%	39%	54%
Videos to rent	51%	36%	12%	22%	25%	31%
Places to buy from	34%	29%	10%	35%	34%	5%
Cars to drive	32%	33%	21%	27%	44%	16%

Word of mouth plays a major role in the purchasing process of many products, namely:

- Sixty five percent (65%) of customers who bought a Palm told Palm (the company) that they heard about the product from another person.
- Forty seven percent (47%) of the readers of Surfing magazine said that the biggest influence on their decisions about where to surf and what to purchase comes from a friend.
- Forty three percent (43%) of people surveyed by the Travel Industry Association claimed that friends and relatives are the number-one source for information about places to visit, flights, hotels, or rental cars.
- Fifty seven percent (57%) of customers of one car dealership in California learned about the dealership by word of mouth according to Dohring Company which conducts a survey on five hundred car dealerships around the country every year.
- Fifty three percent (53%) of moviegoers rely to some extent on a recommendation from someone they know according to a study by Maritz Marketing Research. No matter how much money Hollywood pours into advertising, people frequently consult with each other about what movie to see. Every year, we hear about movies such as *The Blair Witch Project* or *There's Something About Mary* that are driven by word of mouth.
- Seventy percent (70%) of Americans rely on the advice of others when selecting a new doctor. The same study showed that sixty three percent (63%) of women surveyed for Self magazine cited referrals from friends, relatives, or colleagues as the main source influencing their purchases of over-the-counter drugs.

Despite the fact that referrals are so pervasive, most of today's marketing still focuses on advertising to influence each customer *individually*, ignoring the fact that purchasing many types of products is part of a *social* process.

Research commissioned by communications consulting firm Burson-Marsteller and undertaken by Roper Starch Worldwide claims it has identified online influencers -- called e-fluentials -- as comprising approximately 8% representing 9 million of today's 109 million Internet users. These e-fluentials are estimated to have the power to influence the opinions of another 72 million Americans online. This number is expected to reach more than 128 million individuals by 2005, creating new challenges and opportunities for business, government agencies, and society at large.

According to NetSmart Research, web site visits based on word of mouth are occurring across industries and across categories of products from very low-end to very high-end ticket items. The survey indicated that in 2000, 55% of people have visited a web site based on word of mouth, up from 36% in 1996. There are three main reasons for such growth:

- The people who NetSmart calls the *Integrators* and *Trendsetters* have already bookmarked their favorite web sites. The only opportunity for traditional online and offline advertising to make any impact are the *Newbies* who are still finding their way around. Interestingly, *Newbies* and *Trendsetters* were equally likely to rely on the power of word of mouth.
- A very simple search on any search engine can return thousands of irrelevant matches. That's the main reason why search engines are getting increasingly more sophisticated and context driven.
- The Internet has become so cluttered that the only way to break through the noise is through word of mouth which has now reached a strategic inflection point by outpacing all the traditional online and offline advertising models.

Among the public as a whole, advertising has the edge over editorial in some categories, but not so among influentials who think advertising has given itself over too much to imagery, and thus, short-changing consumers on information critical to making informed decisions. In particular, influentials tend to think that advertising doesn't respect their intelligence. In fact, most influentials think that companies use subliminal techniques to manipulate consumers, mislead them, or exaggerate the features and benefits of their products and services.

McKinsey study argued that word of mouth influences slightly more than two-thirds of the U.S. economy. Cap Gemini Ernst & Young asked car buyers what influenced them to buy a new car: 70% cited word of mouth and only 18% cited advertising. The Promotion Marketing Association asked consumers about the top influencers of purchase decisions: 48.5% cited word of mouth and only 27% cited advertising.

According to the Roper Reports, in 2003, influentials made 84 million recommendations to restaurants; 76 million to movies; 53 million to vacation spots; 30 million to retail stores, web sites, and cars; 25 million to hotels; 20 million to magazines; 10 million to investments insurance, computers, electronics, long distance services, airlines, car rentals, office equipment, and alcoholic beverages; and 5 million to cosmetics and beauty products. The Law of the Few is somewhat similar to Pareto's Law that claims that very small minority who is extremely wealthy controls the socio-economical environment of the large majority.

According to NetSmart Research, site visits based on Word-Of-Mouth (WOM) are occurring across industries and across categories of products from very low-end to very high-end ticket items. The survey indicated that in 2000, 55% of people have visited a web site based on WOM, up from 36% in 1996.

Research commissioned by communications consulting firm Burson-Marsteller and undertaken by Roper Starch Worldwide claims it has identified online influencers -- called e-fluentials -- as comprising approximately 8 percent (9 million) of today's 109 million Internet users. These e-fluentials are estimated to have the power to influence the opinions of another 72 million Americans online. This number is expected to reach more than 128 million individuals by 2005, creating new challenges and opportunities for business, government agencies, and society at large.

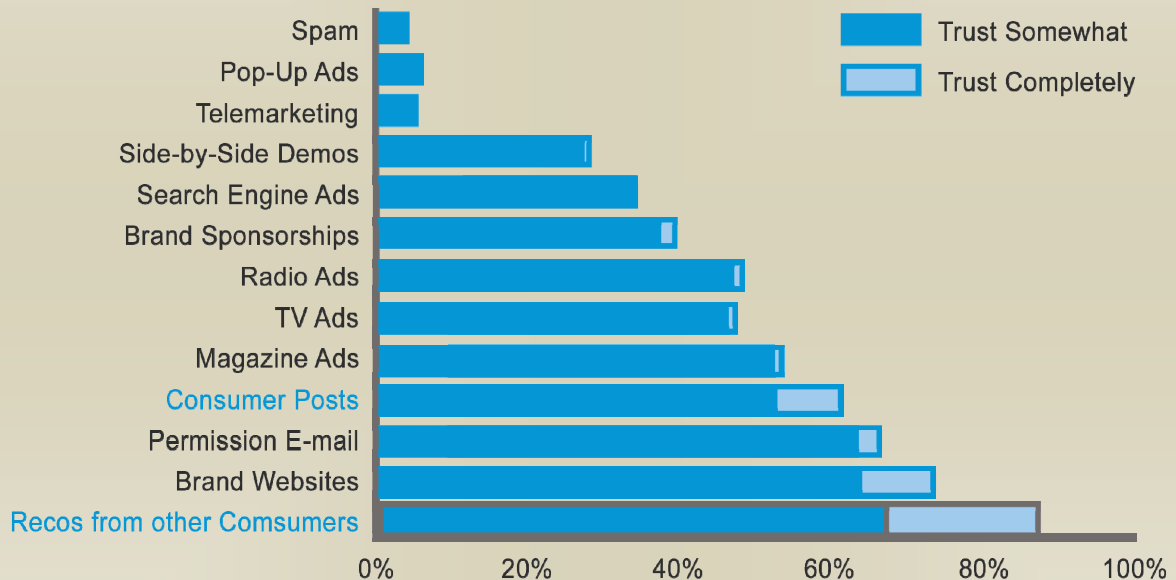
In 2001, Bowman and Narayandas measured word of mouth behavior via a survey of the customers of 60 different brands of consumer products manufactured by seven large US firms. They captured both the incidence of a word of mouth referral (whether the customer told someone else of their experience) and the breadth of referral (how many people they told). They found additional support for the U-shaped model put forth by Anderson which looked at the entire spectrum of word of mouth communication, from negative to positive. He proposed a utility-based model that gives rise to a U-shaped function in satisfaction. Very dissatisfied customers and very satisfied ones are most likely to engage in word of mouth. Those "in the middle" do not do so. He found support for these hypotheses using a panel data set on customer satisfaction in both Sweden and the United States. Moreover, he found that the slope on word of mouth activity as a function of satisfaction is higher at these extreme points as satisfaction decreases than as satisfaction increases.

In his book *Data Smog*, David Sheng surmised that the average person is exposed to 3,000 advertising messages per day!!! That's deafening. No wonder why consumers tune out. It reminds us of the old marketing aphorism coined by John Wanamaker, the 19th century department store pioneer: *"I know that half of my ads don't work, but I don't know which half to cut"*.

According to Forrester Research, viral marketing works best when it is developed as part of an overall marketing strategy. The survey has shown the following response rates:

- A mass mailing typically generates a 1% response rate.
- A high-quality e-mail distribution list typically generates 6% response rate.
- Viral marketing campaign generates 25% to 50% response rate

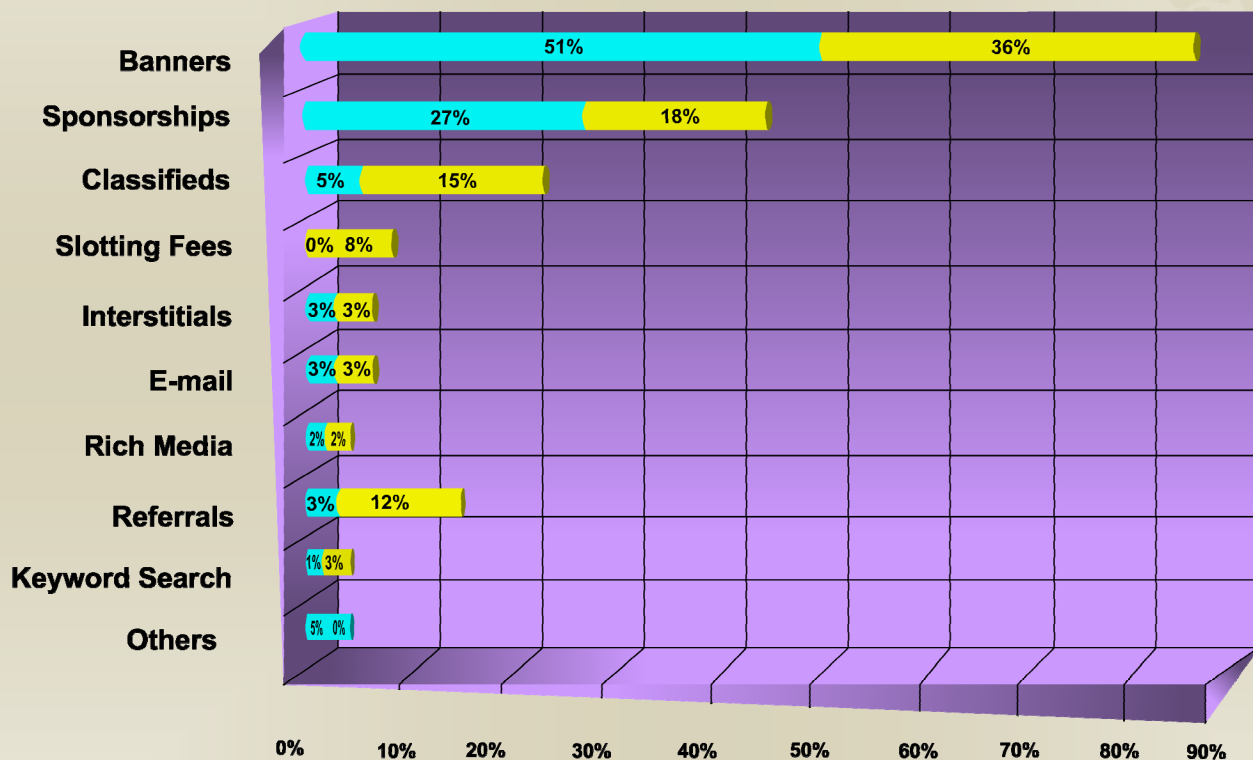
According to Forrester Research / Intelliseek, Consumer Generated Media (CGM), defined as online word-of-mouth, consistently outranks other ad vehicles on the “trust” factor. As word-of-mouth platforms grow and traditional tools lose impact, the measurable propensity of a customer base to recommend products and services to others will be regarded as the single-largest measure of brand equity.



According to Intelliseek, while CGM is more “trusted” than traditional media, it is also more difficult to control, largely because it depends heavily on the nature of the consumer’s “brand experience.” Brands that under-perform in areas such as customer service - a highly viral topic - will always struggle with managing CGM predictably.

	Traditional Media (CPM Model)			Consumer Generated Media (CGM)		
Variable	TV	Print	DTC	Ratings	Posts & Reviews	C2C Email
Reach	High	High	High	Med	High	High
Trust	Med	High	Med	High	High	High
Cost	High	High	High	Low	Low	Med
Control	High	High	High	Low	Med	Low

According to a survey done by PriceWaterhouseCoopers and Interactive Advertising Bureau (IAB) in September 2001, banners, which were the most popular advertising vehicle to date, were on the decline, while e-mail and referral programs were the fastest growing marketing arsenals, followed by classifieds and slotting fees.



The fifth annual 2001 Association of National Advertisers report finds that 79% of US companies advertised online in 2000 -- up from slightly under 67% in 1999. Companies spent an average of \$2.4 million each for e-advertising last year and 50% say that developing and improving brand loyalty was their primary goal overall for web marketing. About 67% of companies use e-mail marketing initiatives for promotion purposes.

According to McKinsey & Company, winning back a lost customer can cost up to 5 to 10 times as much as acquiring a new customer, and 50 to 100 times as much as keeping a current customer satisfied. Hence, customer retention and loyalty is critical.

Johnson-Brown and Reingen (1987) in their research on social ties and Word-Of-Mouth (WOM) found that weak-ties (people that a person does not see very often) are more likely than strong-ties (close friends and relatives) to serve as bridges through which WOM referrals flow across groups. In other words weak ties are more crucial in explaining macro phenomena of interpersonal communication. They also found that the receiver's decision making is more influenced by information obtained from strong-ties than weak-ties and that the more homophilous the tie, meaning communication among similar consumers, the more likely it is activated for the flow of referral information.

The Harvard Business Review published a survey of leading companies in six different industries that showed that a slight increase in customers' retention has a dramatic impact on profits and growth. Specifically, a five percentage point increase in customer retention in a typical company will increase profits by more than 25%, and will increase growth by more than 100%. However, most companies are feeling the dark side of these loyalty economics today, meaning that their profits and growth are being devastated by customer retention. The advent of the Internet did not help this loyalty crisis due to the fact that the competition is only a click away. Simply put, it is much easier to fill a bucket when it isn't leaking. For example, the typical Fortune 500 company has real annual growth of 2.5%. If it retains 5% more of its customers each year, real growth will triple to 7.5%. While hard to believe, the fact is that the average company today loses half its customers in five years, half its employees in four years, and half its investors in less than one year.

Viral marketing is not new - Amway, Apple Computers, Campbell Soup, Celestial Seasoning Herbal Tea, Faberge Shampoo, Harley-Davidson, Hershey, Lexus Automobiles, Mary Kay Cosmetics, Noxzema, Saturn, and many others long ago proved there's good money to be made when "friends tell two friends".

In the classic '70s Faberge Organic shampoo television commercial, a woman tells two friends about the product, and they tell two friends and so on, and as she speaks her image multiplies across the screen. If that commercial ran today and that woman was an influencer, she would influence eight friends, with her opinion spreading in multiples of eight rather than two.

More recently, Deja, Epinions, Google, Hotmail, Napster, and Netscape have all used word of mouth. However, as Hotmail has successfully proven, the Internet takes the process to another level. It can spread a message like a brushfire around the world.

Ever since the founders of Hotmail added a link to every e-mail message sent through the service in 1996 (bringing in up to 12 million users in just 18 months for a little more than \$50,000 spent on marketing), viral marketing – a term coined by Draper Fisher & Jurvetson – the venture capital firm who invested in Hotmail, has held out the promise of big growth for little money. Viral marketing stimulates word of mouth in social networks. Recently, as marketing budgets have shrunk and venture capital dollars have dried up, retailers and managers of content web sites have been paying much more attention to viral marketing, hoping it will do for them what it did for Hotmail.

The success of low-budget horror film *"The Blair Witch Project"* is an example of using the Internet to help spread word of mouth. The film's web site had a budget of \$15,000, but it got 75 million visits in the first week alone, while the movie grossed at least \$100 million.

Formerly unknown brands acquired hip acceptance and generated volume growth without the necessity of an outrageously expensive advertising or marketing budget. Marketers are taking to the streets, as well as cafés, nightclubs, and the Internet, in record numbers. Vespa importer Piaggio USA has its biker gang, Hebrew National has dispatched *"mom squads"* to grill up its hot dogs in backyard barbecues, while Hasbro Games has deputized hundreds of fourth and fifth graders as *"secret agents"* to tantalize their peers with Hasbro's new POX electronic game. Their goal was to seek out the trendsetters in each community and subtly push them into talking up their brand to their friends and admirers.

When Ford wanted to position its Focus as a hip, young person's car to compete with the Honda Civic, it didn't initiate a costly advertising campaign to mass audiences. It called on the power of buzz marketing to launch a campaign to key prospects. Ford sparked the buzz by rounding up 120 influential young consumers in New York, Miami, Los Angeles, Chicago and San Francisco. Ford loaned each of these 120 people a Focus to drive for six months. In Miami, a Focus was loaned to a radio deejay, popular with young locals. After seeing the cool deejay in a Ford Focus, his fans aspired to own that very same car. The strategy proved enormously successful in generating word of mouth for the Focus. Ford has lots of stories like this. In its first full year, 2000, the Focus sold 286,166 units. And it even outsold the Civic in 2001.

Record label companies, tobacco, beverage, and fashion-related brands are notorious for some of their stunts. In the case of the liquor industry, it was not uncommon to have paid agents provocateur visit trendy bars, order the brand of choice (normally an unknown foreign import from the white spirits family) and strike up conversations with both bartenders and customers in order to establish cool buzz for the brand. In many cases, it worked.

This is the new world of *Buzz Marketing*, where brand come-ons sometimes are veiled to the point of opacity and where it is the consumers themselves who are lured into doing the heavy lifting of spreading the message. Generating great word of mouth for their products has been the Holy Grail in marketing circles since P.T. Barnum learned to work a crowd.

The slightly subversive and slightly underground techniques that form the basis of Buzz Marketing have been building in popularity for a few years, but now a confluence of factors has helped to make Buzz Marketing more attractive than ever before, namely:

- Buzzing is cheap – at least a lot cheaper than advertising. In a period of budget chopping, cheap is good.
- The fast adaptation and acceptance of the Internet and the web, which means marketers can reach just about anyone in almost any guise they care to assume.
- Buzz marketing attempts to make each encounter with a consumer look like a unique and serendipitous event. That is appealing to the young crowds in their teens or twenties, who remain skeptical of traditional mass advertising.

In a successful “*buzzing*” campaign, each carefully cultivated recipient of the brand message becomes a powerful carrier, spreading the word to yet more carriers, much like a virus rampages through a given population. *“We’re arming consumers with the tools or knowledge they can take back to their peer groups so they’ll be perceived as being in the know,”* says Scott Stern, senior vice-president at Bates USA, who developed a viral marketing campaign for Lucky Strike. Ultimately, the brand benefits because an accepted member of the social circle will always be far more credible than any communication that could ever come directly from the brand. As a marketer, you hope to have your consumer do your marketing for you, explains Sharon Smith, director of Lucky Strike. *“It is credible, less expensive, and enormously believable.”*

The initial contact may look spontaneous, but it’s anything but. “*Buzzing*” campaigns are meticulously planned and the results carefully measured. Marketers can quantify how often their message will be passed along and how many downstream consumers they need to influence before a fad is born. For example, VF Corp contacted 200,000 carefully selected web surfers in the opening foray of a “*Gossip*” campaign for its Lee Dungarees. Within four months, 436,000 visitors had made their way to a specially created game site.

It’s not hard to see why major marketers are open to experimentation. Expensive conventional approaches such as network television ads seem less and less able to move the needle. That is particularly true when it comes to younger consumers who are coveted by marketers because they are still forming their brand preferences. They spend less time planted in front of the television and are more skeptical about the messages they receive from the television. Besides, some products or services are so complex, it is hard to get the message across in a 30-second commercial.

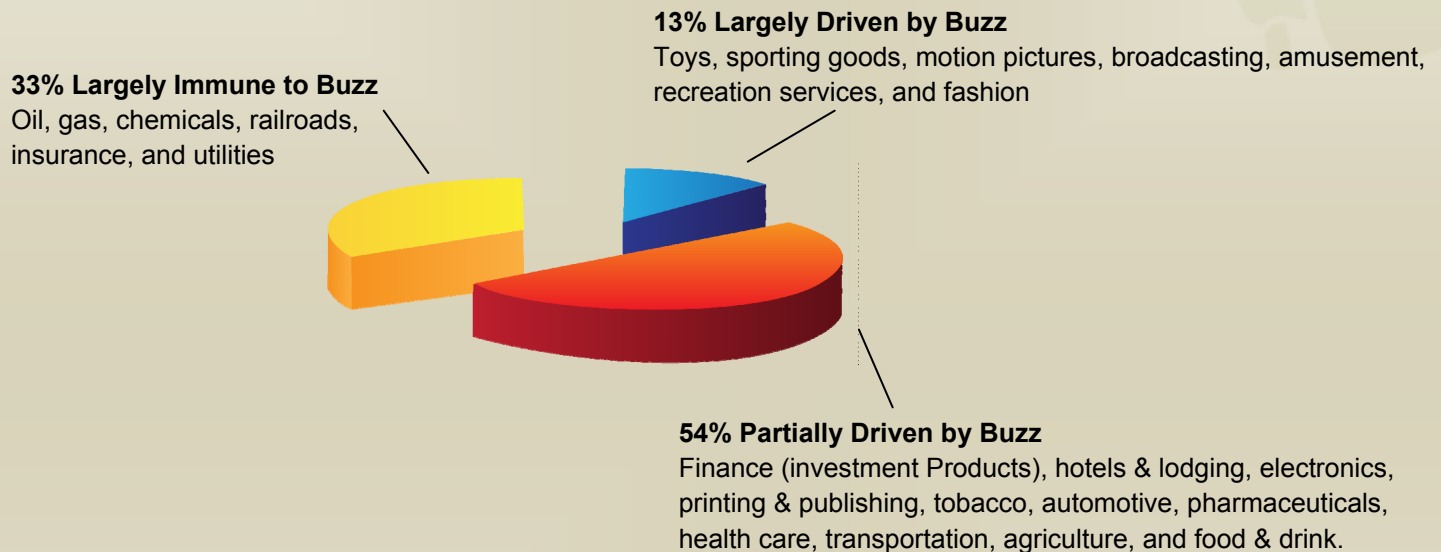
Some of the world’s most authoritative marketers have now entered the field of Viral Marketing. Notably, Procter & Gamble has spun off a company called Tremor which is a community of influencers chartered to spread the word about their products through their hives.

Finally, we shouldn’t have to go that far to notice that the **INTERNET**, the **WORLD WIDE WEB**, and **OPEN SOURCE** have taken off entirely on their own through word of mouth without even placing a single advertisement.

In his book entitled *"the Anatomy of Buzz"*, Emanuel Rosen identified ten industries that are particularly influenced by referrals, namely:

- **Automotive**
People, especially Americans, are in love with their cars, which makes it natural to talk about them. According to Jim Callahan from the Dohring Company, which conducts surveys on car dealerships 57% of customers of one car dealership in California learned about the dealership by word of mouth.
- **Consumer Electronics**
People love to talk about new things. The consumer electronics industry indulges us with a constant flow of innovative products to talk about. Today, mobile phones are a hot topic but one can expect fewer people to talk about them. As the novelty wears off, people begin to talk about a new gadget.
- **High Tech**
More than half (52%) of IT professional services buyers say they are most likely to make purchases based on a recommendation from a colleague. The second most reliable sources are industry analysts (29%) and industry trade press (22%). Sixty five percent (65%) of customers who bought a Palm told the manufacturer that they heard about it from another person.
- **Entertainment**
Fifty three percent (53%) of moviegoers rely to some extent on a recommendation from someone they know according to a study by Maritz Marketing Research. No matter how much money Hollywood pours into advertising, people frequently consult with each other about movies. Every year, we hear about movies like *The Blair Witch Project* or *There's Something About Mary* that are driven by word-of-mouth.
- **Fashion**
Social learning plays a major role in the way fashion spreads. More than half of the respondents who were asked by market research firm Yankelovich to specify sources of information about new styles, said they learn about fashion by observing what others are wearing. We learn and live by imitating because it is safe. No ones wants to look odd, so we all wear what other people are wearing.
- **Health Care**
Seventy percent (70%) of Americans rely on the advice of others when selecting a new doctor. The same study showed that sixty three percent (63%) of women surveyed for *Self* magazine cited referrals from friends, relatives, or colleagues as the main source influencing their purchases of over-the-counter drugs.
- **Publishing**
Forty seven percent (47%) of the readers of *Surfing* magazine say that the biggest influences on their decisions about where to surf and what to purchase come from a friend. An empirical study made by Prof Dina Mazlin from Harvard and Prof Judith Chevalier from Yale entitled *"The Effect of Word of Mouth on Sales: Book Reviews"*, which essentially proves that there is a strong correlation between the quantity/quality of reviews and the sales of books at Amazon and Barnes & Noble. Of course, Harry Potter, just to mention one book, is a constant reminder of the power of word of mouth.
- **Travel**
Forty three percent (43%) of people surveyed by the Travel Industry Association claim that friends and relatives are the number-one source for information about places to visit, flights, hotels, or rental cars.
- **Toys and Games**
Children tend to socialize more and be more influenced by their peers than their elders. As a result they seem to talk more about products. From Beanie Babies to Nintendo, word of mouth has always been the driving force behind successful toys and games.
- **Consumer Packaged Good**
Do people actually talk about things like soap, detergents or toothpaste? They do. Of course, the discussion about Colgate is not as intense as the discussion about Harry Potter, but there's definitely constant exchange of information about these products, especially when they are new.

According to McKinsey & Company, slightly more than two-thirds of the \$6 trillion U.S. economy in 1994 has been influenced by word of mouth. Because of technological innovations like the Internet that enable customers to spread word of mouth quickly, few companies are nowadays immune to word of mouth.



The academic literature has shown the importance that word of mouth referrals plays in product and service purchases and purchases behavior. For example, when considering individual products or services, research as shown that consumer rely on word of mouth referrals when searching for:

- A physician (Coleman, Katz & Menzel 1957; Feldman & Spencer 1965)
- Razor blades (Sheth 1971)
- An air conditioner (Whyte 1954)
- A mechanic (Engel, Kegerreis & Blackwell 1969)
- A car (Newman & Staelin 1972)
- Farming practices (Katz 1961)
- Voting (Lazarsfeld, Berelson & Gaudet 1944)
- Household goods and food products (Katz & Lazarsfeld 1955)
- Fabrics and supermarkets (Beal & Rogers 1957)
- Services (Alreck and Settle 1955)
- Diffusion of new products (Rogers 1983)
- Influence consumer behavior and affects substantially the US economy (Dye 2000)
- Influence consumer decisions (Arndt '67; Feldman & Spencer '65; Gitelson & Crompton '83; Swan & Oliver '89)

Katz & Lazarsfeld research showed that word of mouth was seven times as effective as newspapers and magazines, four times as effective as personal selling, and twice as effective as radio advertising in influencing consumers to switch brands. These results matched those published a year later in a study based across seven European countries where it was found that over 60% of 7,000 consumers were influenced to purchase a new brand on the basis of referrals from a family member or friend (Kotler 2000).

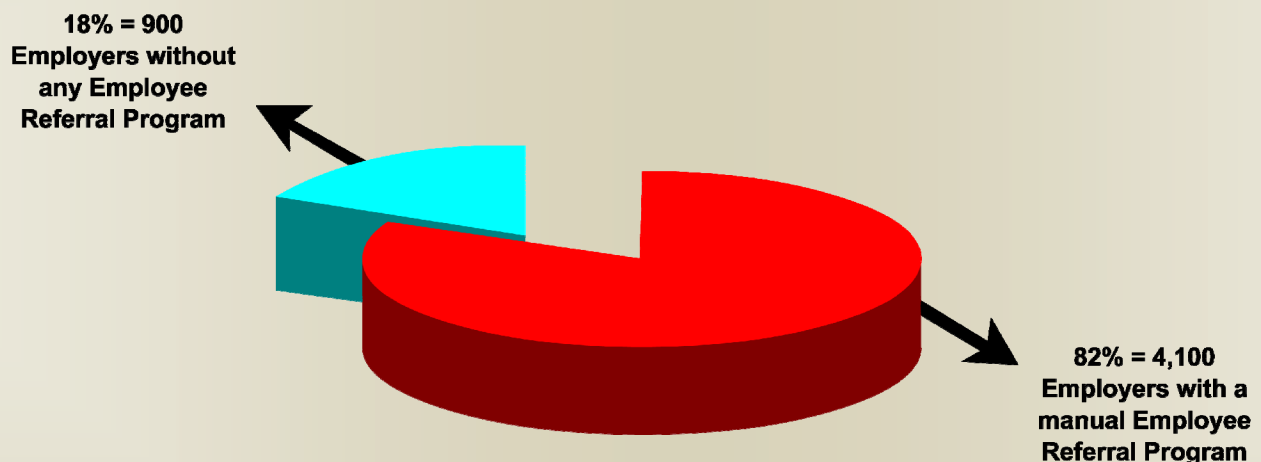
Overall, word of mouth communication has been described as:

- A dominant force in the marketplace for services (Mangold, Miller & Brockway 1999, p. 73)
- An especially potent form of communication (Dann & Dann 2001, p.350)
- The most cost effective form of marketing a business can use (Misner 1994, p. 41)
- The most powerful force in the marketplace (Silverman 2001, p. 47)
- A very powerful tool in the marketplace based on credibility that comes with a referral which could make it the greatest of all brand messages (Duncan & Caywood 1996, p. 66).

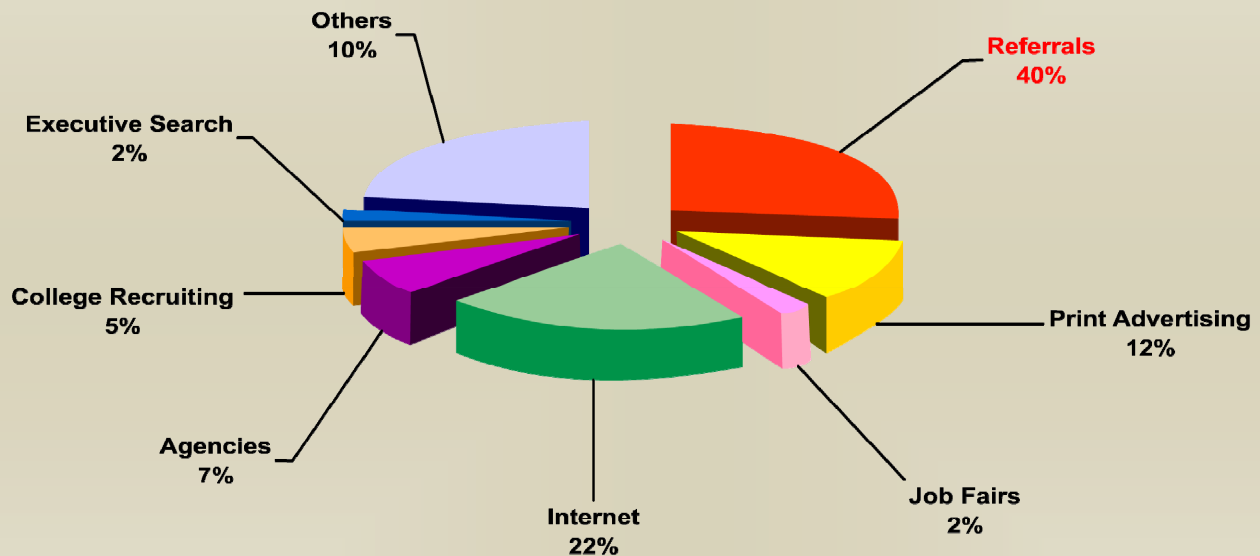
In their research paper entitled “*Using Online Conversation to Study Word of Mouth Communication*” Prof David Code and Prof Dina Mayzlin from Harvard argued that word of mouth spreads quickly within communities and slowly across them. This is due to the fact that members of the same community have frequent interaction with each other and thus are more likely to learn information from each other than from members of other communities. If this is true, then conditional on a certain “*volume*” of word-of-mouth, more people will become informed about something the more “*dispersed*” this information is between communities.

In his research paper, Dr. Alexis McLean – Professor of Marketing at University of Strathclyde, Glasgow, presented the empirical findings of a recent qualitative study of networks within which venture capital firms are embedded. The findings indicated that 60% of management buy-out managers’ time is focused on networking activities in order to procure MBO deals through their network of contacts. In addition the grounded findings generated uncover the components of networking, within the venture capital industry. The main underlying reasons for the networking activities used by management buyout managers is firstly to create, develop, and maintain relationships with network participants to procure and complete MBO deals. Secondly, that the networking activities implemented by the MBO managers was influenced by company objectives and the strength and weakness of ties (relationships). Consequently, networking has been evaluated by the researcher as critical to the MBO industry and a major finding of the research study. Subsequently, the research indicated the importance of MBO managers possessing the personality and skills required to network, with the identification of skills required to network being of significant importance to the industry and management in general. The research also found that reputation and networking are intrinsically linked, and much of the networking activities implemented and the completion of deals carried out by the MBO managers is dedicated to the maintenance and development of the company’s reputation.

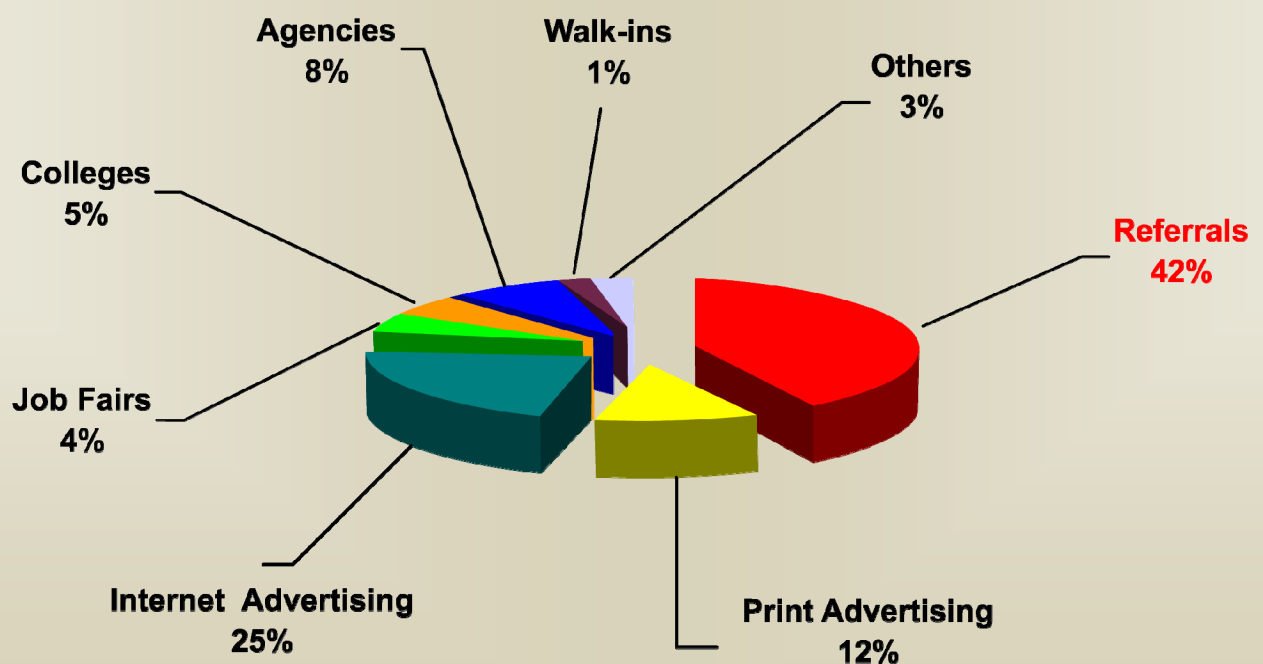
According to a Radford study, 4100 employers, representing 82% of global 5000 companies surveyed offer a manual Employee Referral Program (ERP) that rewards referrals with bonuses to their employees. The majority, if not all ERPs are limited to internal employee referral programs, and hence fail to take real advantage of the Internet by allowing not just employees to make referrals but any legitimate outsider as well.



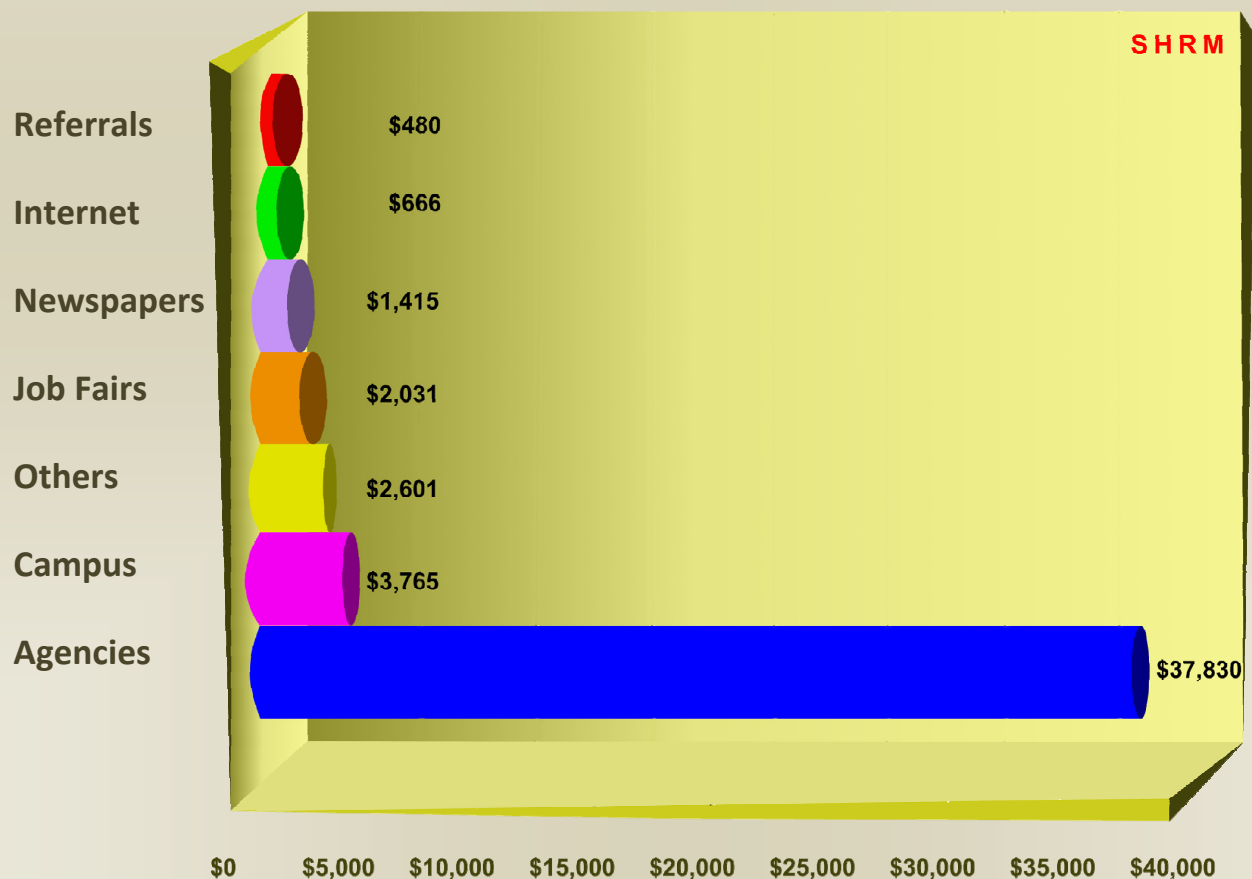
According to IDC, among all the difference sources that employers use to recruit, internal referrals are the most successful and the most widely used, representing 40% of all other sources. Print advertising and job boards are among the least effective sources because they usually attract the U4s: *unemployed, unqualified, unhappy, or undesirable*. They also waste a lot of the employers' time because they generate a significant number of unqualified or undesirable resumes that recruiters have to sniff through.



Similarly, candidates rely on referrals 42% of the time, greater than any other source for finding a job. Yet, despite this unequivocal preference, referrals remain today the least computerized. Sure enough, according to Dr. Sullivan – an authority in the recruiting sector – the flood of applicants caused by the layoffs during the last recession made corporate recruiters ignore the avalanche of resumes coming from job boards or from the career section of their own web site. They could afford to be choosy and they were relying mostly on referrals to hire new employees.



According to a study conducted in 2000 by the Society for Human Resource Management / Employment Management Association (SHRM/EMA), the cost-per-hire of different sources of recruiting is as shown in the graph below. The cost of hiring an ex-employee is 50% less than the cost of hiring a new hire. Ex-employees who have been rehired tend to stay twice as long as new hires. Hence, referrals are the most cost effective mean for recruiting compared to any other source.



According to Aon Consulting, the productivity of an ex-employee during the first quarter of a rehire is 40% more than the productivity of a new hire during the same period.

According to Mercer Consulting study, *"Attracting and Retaining High-Technology Talent"*, employee referrals are the most effective hiring technique.

According to an online poll conducted by HRnext and its sister site BLR.com, more than 55% rate *"word of mouth or networking"* as the best way to recruit high-quality applicants.

A recent survey found that it would take about \$1,000 to motivate most people in the workplace to participate in their company's employee referral program. In a survey of 2,300 respondents who work in such varied industries as retail and ranging to the fields of technology, health care and education, 85% said \$1,000 was the appropriate bounty for bringing new hires aboard.

According to a study performed on a sample of 66,758 and conducted by Unicru – a staffing firm specialized in placing temporary workers in the retail industry where turnover is quite high, workers hired through employee referrals prove to have the highest tenure averaging 112 days with an involuntary termination rate of 35%.

<u>Source</u>	<u>Tenure in Days</u>	<u>Involuntary Termination Rate</u>
Employee Referrals	112	35%
Internet	112	31%
Customer / Walk-in	96	34%
Advertising	80	64%
Signage / Job Line	77	27%

According to Mark Granovetter, author of "Getting a Job", estimates that in most cases the relationship between the referrer and the candidate were not as strong as one might expect. Specifically, 18% of people obtained their job through referrals from someone they see often, referred to as "*Strong Ties*"; 57% from people seen only occasionally, referred to as "*Average Ties*"; and 25% from people seen rarely, referred to as "*Weak Ties*". This phenomenon is referred to as "*the strength of weak ties*". Viral marketing can help employers leverage these "*weak ties*" by facilitating the process of employees using their social capital to help source qualified candidates. Social capital is "who employees know" or "*Referral Network*", and human capital is "what they know" or "*Knowledge Network*".

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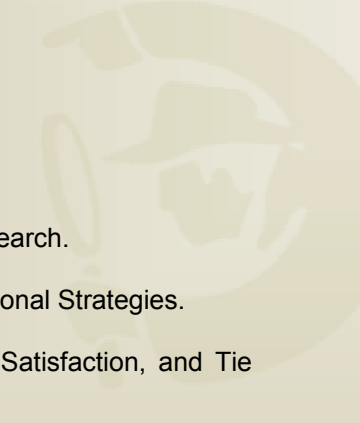
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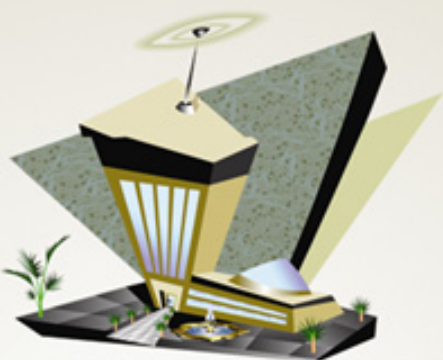
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