



RETURN ON WORD OF MOUTH



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PREFACE

By 2014 WOMMA Chairman, Brad Fay

Many companies -- from McKinsey and Boston Consulting Group to Nielsen and my own company, the Keller Fay Group -- have produced evidence that positive word of mouth is a marketer's most valuable resource. Nothing persuades brand trial, adoption and loyalty better than a recommendation from another consumer, particularly a trusted friend or family member. Few will argue with this logic, but until now it's been extremely difficult to put hard numbers to that value.

This month, the Word of Mouth Marketing Association (WOMMA), for which I am board chairman, unveiled third-party research that measures the total marketplace impact at \$6 trillion dollars, and found that the value of a word of mouth impression is anywhere from 5 to 100+ times more valuable than a paid media impression.

And while the study values an earned impression at a very high level, it further it shows that word of mouth often works hand-in-hand with paid advertising, amplifying advertising's impact by 15%. Paid media have the potential to generate a lot of highly valued word of mouth conversations and recommendations.

This is exactly the sort of research that marketers need to begin getting truly serious about their use of both online and offline word of mouth marketing strategies and tactics. Indeed, it is the first comprehensive study to show the business value of both online and offline word of mouth, finding that two-thirds of this social influence happens offline (face to face or over the phone) and one third online (through social media of various kinds, including social networking sites, ratings and reviews, blogs and the like).

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PREFACE

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The research was undertaken by the top modeling firm Analytic Partners, under the supervision of Sequent Partners, both highly-respected independent research companies. Participating in the study were major brands that contributed their confidential business data and funding, including AT&T, Discovery Communications, Intuit, Pepsico and Weight Watchers. Funding also came from agencies Brains on Fire, House Party, Ogilvy and Zocalo Group. The implications of the study are nothing short of revolutionary for marketers:

1. We now know that using the right data and analytic techniques, marketers can expect to show the ROI of their social media and offline word-of-mouth investments. A “social strategy” no longer needs to be undertaken on a purely experimental basis.
2. We can begin to make decisions on marketing investment levels. At the low end, for fast moving consumer goods, offline word of mouth is worth five times more than a paid media impression. For higher consideration categories it's more than 100 times more valuable. That means marketers can start confidently making bigger investments in a wide range of word of mouth techniques: experiential marketing, social media campaigns, referral programs and greater efforts to improve customer service and other touch points that can drive positive as well as negative word of mouth.
3. We better understand the synergy between paid advertising and word of mouth. Right now, word of mouth amplifies paid media by 15%, which means it's a key factor in increasing the effectiveness and efficiency of advertising. The study also raises the tantalizing question of how much more amplification could be obtained if advertising were specifically designed to trigger conversation and advocacy, either as a result of changes in market messaging or media planning.

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PREFACE

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4. The study also shows there's wide variation in how word of mouth works by category and brand. It thus poses a new challenge for marketers to undertake their own analysis to discover exactly how word of mouth works in their categories. Each of the participants in this study gained valuable insights that go beyond the summary conclusions released by WOMMA this month.

The Word of Mouth Marketing Association is celebrating its 10th anniversary with the release of this landmark study. Based on the findings, the next 10 years should be an exciting new era for marketers who embrace the consumer-to-consumer influence revolution that's been underway for more than a decade.

RESEARCH TEAM



ABOUT THE RESEARCH TEAM

Analytic Partners is a leading global marketing consultancy, founded in 2000 to deliver customized analytics that improve business performance and marketing ROI. Analytic Partners provides both the technology and consulting to help marketers achieve a deeper understanding of their business through insights from marketing mix modeling, cross-media attribution, digital and social media analysis, customer loyalty analysis, predictive modeling and marketing optimization. AnalyticPartners.com.

Sequent Partners is an entrepreneurial consulting firm specializing in brand and media metrics. Founded in 2003, they help clients link marketing, advertising and media activities to financial outcomes. Sequent Partners specializes in marketing accountability and ROI, innovative media metrics development and group facilitation and consensus building. Clients value their objective outside perspective and broad industry experience. SequentPartners.com.

The Keller Fay Group is an award winning research and consulting company dedicated exclusively to word of mouth marketing. Keller Fay's syndicated research service, TalkTrack®, is the only comprehensive tracking study of America's word of mouth conversations that monitors word of mouth conversations about products, services, and brands, including those that occur offline (where 90% of conversations take place) as well as online.

Converseon is an award-winning full service social media agency that has been helping leading brands join the conversation to meet their business goals since 2001. They are led by a diverse group of some of the industry's brightest minds who have banded together to create a new approach that fully leverages the changing ways people gather, act and share on information.

DEFINITIONS


Terms and their meanings in this report:

Term	Meaning
“Word of Mouth,” “WOM”	Consumer-to-consumer brand conversation or mention, online or off
“Sales,” “business performance”	A brand’s sales or equivalent – recruits, rating points, etc.
“Impact”	Impact on a brand’s sales or equivalent


BACKGROUND

- Consistent measurement of WOM is lacking
- WOM is believed to be a strong business driver
- Difficulty in measuring precise **Return on WOM** has been the largest obstacle to marketers' embracing online and offline word of mouth marketing (WOMM)
- There's been no major, independent study quantifying WOM's impact, across categories, using market mix modeling – **until now**

OBJECTIVES

- Help the industry understand the optimal role of online and offline WOMM in the marketing plan
 - Produce a best practice and good example of how to include WOM in marketing mix models, encouraging more evaluation of WOM's value
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KEY QUESTIONS

- How much of a brand's sales (or equivalent – recruits, rating points, etc.) are driven by WOM?
 - Does WOM amplify marketing, and if so by how much?
 - How do the impacts of online and offline WOM compare?
 - What are best practices for measuring WOM in market mix models?
 - How do WOM and paid impressions compare in their effectiveness at driving sales?
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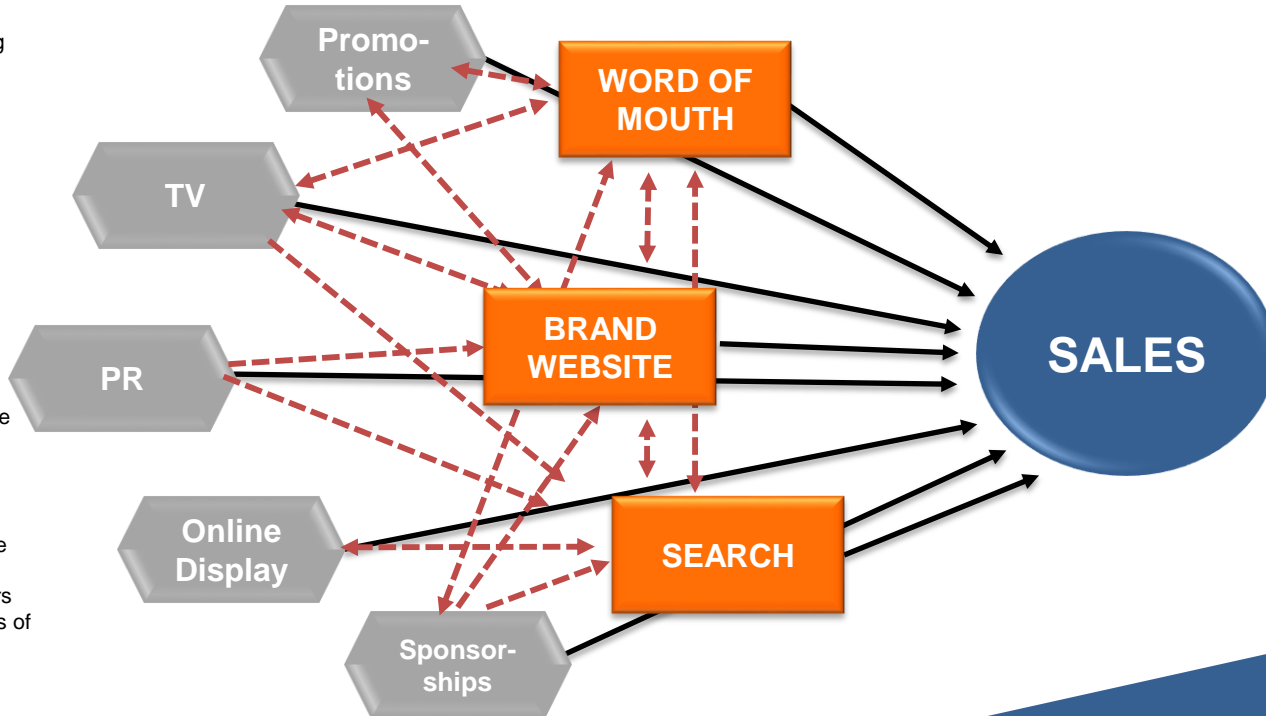
DATA COLLECTION

- Extensive data collection effort
- Two-three years of detailed weekly data for:
 - Business performance KPI (sales, recruits, rating points, etc.)
 - Online & offline WOM
 - Paid media by channel
 - Promotional activity
 - Other external & internal factors
- AP scored the data on several dimensions to ensure it was robust for modeling

ANALYTIC MODELING

Analytic Partners Used Adaptive Structural Equation Modeling (SEM)

- SEM** is a highly effective method for estimating the complex causal relations in nested decision processes. Analytic Partners' Adaptive SEM is:
- Highly effective in modeling mediation, indirect effects and other complex relationships versus more traditional regression modeling techniques.
 - Recommended as the preferred modeling method, given the multiple touch-points involved in word of mouth effects and the chained effects onto other marketing levers and business impacts of the promoted brands/products.





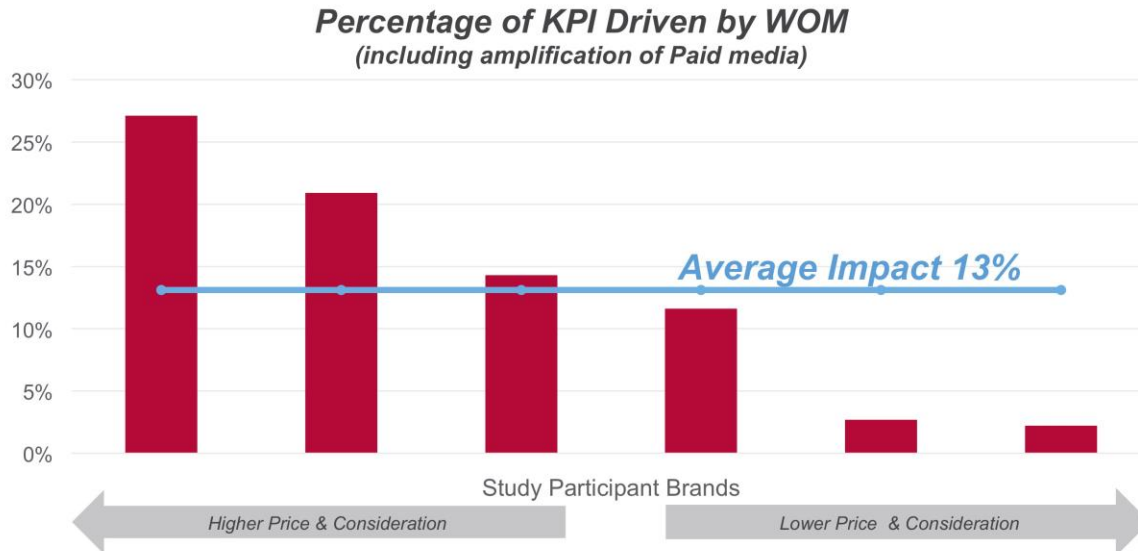
WOM

ROI

INSIGHTS &
LEARNINGS

WOM drives a significant portion of sales, across categories – an average of 13%

- For context, paid marketing in total drove 20-30% of sales, on average, for the brands participating in the study
- Categories in the study included telecom, personal care, software, TV programming, FMCG
- WOM's impact is greater for higher-consideration categories, smaller for lower-consideration
- WOM's impact was lower for brands in the study whose KPI was "total sales," as opposed to a subset of total
- 13% of consumer sales in the US was \$6 trillion in 2013, according to the Department of Commerce



Two-thirds of WOM's impact is from offline WOM, one-third from online

% WOM Impact on Business



Offline WOM Data Provided by TalkTrack, Keller Fay Group

- Survey based, 100 respondents per day / 700 per week / 3000 per month
- Respondents report on their conversations within a day of when they occur – respondents are always new, can not participate more than once in a 4-month period
- Weekly mentions provided by tone: Negative, Positive, Neutral

Online WOM Provided by Converseon

- Scrapes hundreds of millions of social sites (blogs, forums, boards, photo & video sharing, Facebook, Twitter, etc.) for online conversations
- Weekly Conversations provided: Sentiment, Emotion, Intensity (for most recent 1 - 1 ½ years)

WOM plays both a direct and indirect role in driving business performance

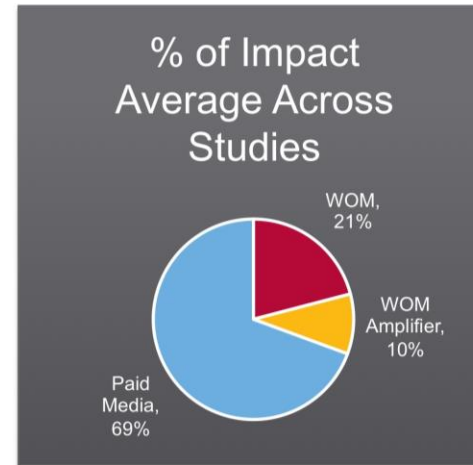
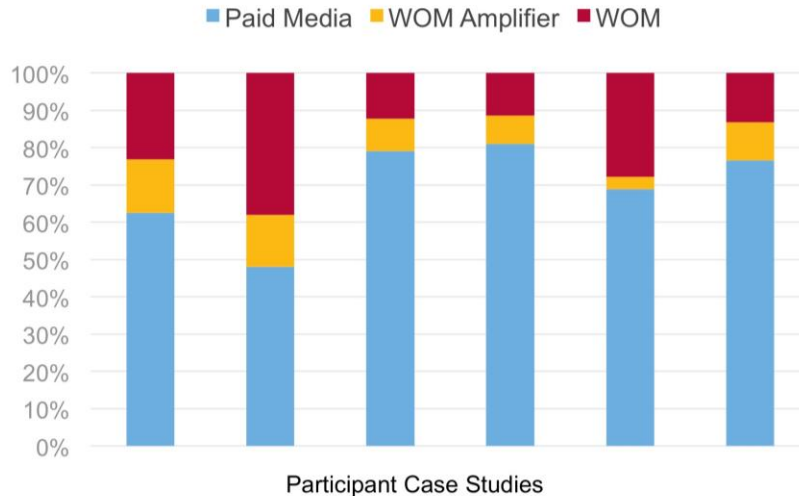
- WOM directly impacts business performance
- WOM is driven by and amplifies online and offline media, which then impacts business performance
- WOM also drives Search and Website visits, which then impacts business performance



Two-thirds of WOM's impact is direct; one-third is as an amplifier of paid media

WOM amplifies the effect of paid media by 15%

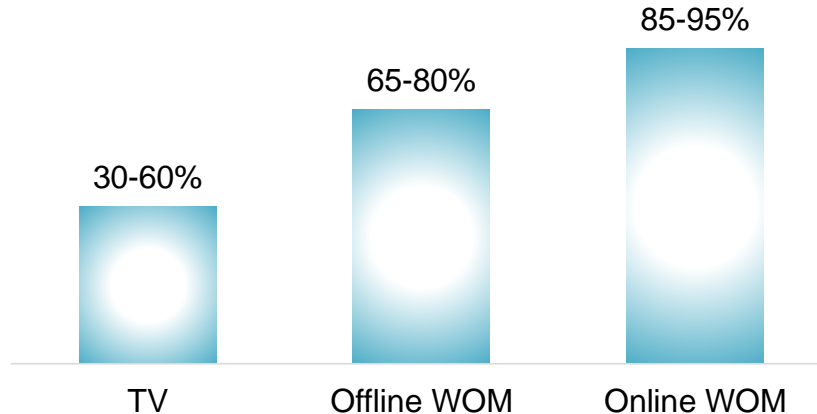
% Impact of Paid Media and WOM on Business Performance



WOM has a more immediate impact than traditional media

- About 90% of online WOM's impact is in the first two weeks
- About 73% of offline WOM's impact is in the first two weeks

Two weeks following exposure
% of Total Impact



A WOM impression has much more impact than a paid media impression

An offline WOM impression drives at least 5 times more sales than a paid advertising impression, and much more (as much as 200 times more) for higher-consideration categories



1 WOM
Offline Impression

=



5 or more Paid
Media Impressions

*Range across study participants =
~ 5 to ~200 Paid Media Impressions*

NOTE: A similar finding for Online WOM requires more comprehensive data on impressions and/or mentions, which are not yet publicly available.

GUIDELINES

Measuring WOM in Models

Align the data across sources

- Ensure WOM data periodicity matches other model inputs/KPIs to maximize data input / output quality

Leverage an SEM modeling approach

- WOM is organic in nature and is also driven by paid marketing

Incorporate sentiment

- WOM data should be segmented by sentiment (positive, negative, neutral) to ensure a robust model

Measure the drivers of Word of Mouth

- Understanding the impact of paid media on WOM will provide understanding of synergies


Consider Impacts onto Owned Media and Search

- WOM has been shown to drive more activity on owned media platforms; WOM is also a driver of Search activity

Track advocacy programs in detail

- Advocate and influencer programs can be big drivers of WOM and sales, so ensure these are tracked in detail (market/weekly level)

KEY INSIGHTS | *SUMMARY*

- WOM drives 13% of sales (paid marketing in total drives 20-30% of sales)
 - Offline WOM produces 2/3 of the impact; online 1/3
 - WOM amplifies the effect of paid media by 15%
 - WOM has a more immediate impact than traditional advertising – most is in the first two weeks
 - One offline WOM impression drives sales at least 5 times more than one paid media impression, and much more (as much as 200 times more) for high-consideration categories
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