



Valuing Word of Mouth in the Sales Funnel

This is the second in a series of brief whitepapers intended to stimulate dialogue, discussion and debate around models for valuing social media and word of mouth.

April 08

In this paper:

- > The media costs to deliver 500,000 consumers who are informed about a product range from \$400K (television) to \$200K (print) to \$160K (WOM).
- > The media costs to deliver 50,000 consumers who indicate purchase intent range from \$2M (television) to \$300K (print) to \$150K (WOM).
- > One WOM conversation carries the impact of 200 television ads.



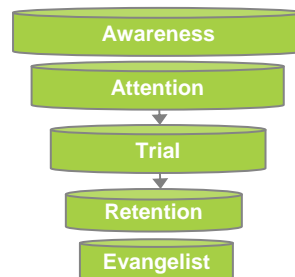
> HOW CAN MARKETERS COMPARE WOM IMPRESSIONS TO OTHER MEDIA?

Advertising impressions are not all equal. A marketer can purchase paid search by CPC, television by GRP, and other media based on CPM and CPA. So how does this compare on a dollar-for-dollar basis?

In our second paper exploring the value of word-of-mouth (WOM) media, we model the expected volume of impressions required by different media formats to achieve comparable results. Our approach evaluates media effectiveness at the top and bottom of the consumer funnel and calculates the corresponding investment needed to achieve equivalent levels of awareness and purchase intent.

> THE ECONOMICS OF MEDIA ENGAGEMENT

WOM is efficient at both ends of the consumer funnel. At the top, a media buyer needs to consider how many impressions are required to capture the attention of the intended audience *and* lift brand awareness. To get to the bottom, advertisers accept that only a portion of their impressions has a chance of reaching the target consumer, and only a fraction of those will secure the viewer's attention.



The model below considers ad recall (attention) rates and the cost of media. With a benchmark goal of achieving message recall among 500,000 consumers, we can estimate the budget needed with each medium to gauge relative efficiency.

Media Cost: Achieving Consumer Awareness

	Ad Recall Rate	Impressions Needed for 500,000 Consumer Recall	Media Cost/ Impression, Click or Communication	Media Investment Required
WOM (communication)	95.0%	526,316	\$.30	\$157,895
Print	7.5%	6,666,667	\$.03	\$200,000
Paid Search (clicks)	70.0%	714,286	\$.50	\$357,143
Television	2.5%	20,000,000	\$.02	\$400,000
Online (display)	1.0%	50,000,000	\$.008	\$400,000
Radio	1.5%	33,33,333	\$.013	\$433,333



As reflected above, due to the significant level of consumer engagement created by a WOM communication, a \$157,895 WOM media investment can deliver 500,000 consumers who are aware of and informed about a product. Based on market norms, this same level of impact would require approximately a \$200,000 print investment, a \$400,000 television investment, or a \$400,000 online (display) investment.

> MEDIA AT THE TOP OF THE FUNNEL

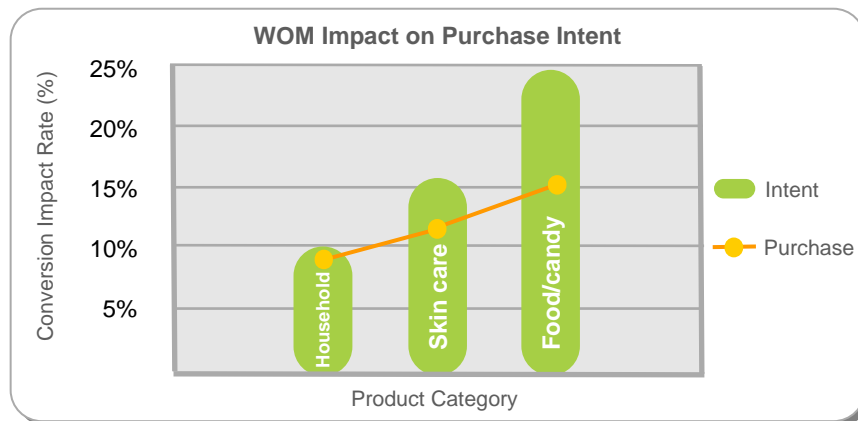
Since a WOM communication is, by definition, a product or brand message that has traveled from one person to another, fully 95% of WOM communications result in the message being received actively by another person. (The other 5% represents potential unintended recipients and bystanders among reported conversations.) Furthermore, because consumers tend to communicate information about a product only when it is relevant to the audience at hand, WOM recipients are particularly well targeted and interested in receiving the information from a personal source.

At the top of the funnel, other forms of media demonstrate, on average, a lower percentage of impact per delivered impression. Paid search is relatively strong at a 70% impact rate. This is because the click-based nature of search is evidence of active consumer interest. It also supports the SEM industry's argument that search is a valid awareness and branding tool. However, due to inadvertent clicks, click-fraud and irrelevant links, search is imperfect.

Traditional media, including television and print, requires multiple impressions and cross-media tactics to generate awareness. As a result, it generally requires a larger media investment to accomplish the a level of awareness comparable to WOM media.

> WOM MAINTAINS ITS IMPACT MOVING DOWN THE PURCHASE FUNNEL

The efficacy of WOM is felt at all stages of the purchase funnel. Across a range of typical verticals and campaign sizes, consumer-to-consumer product and brand conversations frequently generate 10- to 15% rates of purchase intent:



Due to consumer control over the message, WOM campaigns tend to be self-regulating in terms of branding and direct-response. Notably, WOM works only when marketing a good product. An open, honest discussion about product experiences, delivered via credible sources, amplifies messaging that result in a high level of purchase intent.

> **WOM STRENGTH AT THE BOTTOM OF THE FUNNEL**

When we adjust our model to evaluate how various media generate purchase intent, we set a benchmark goal for each medium to generate 50,000 consumer purchase intentions. The results are as follows:

Media Cost: Driving Consumer Intent

	Purchase Intention Rate	Impressions Needed for 50,000 Intended Purchasers	Media Cost/ Impression, Click or Communication	Media Investment Required
WOM (communication)	10.00%	500,000	\$.30	\$150,000
Print	.50%	10,000,000	\$.03	\$300,000
Online (display)	.05%	100,000,000	\$.008	\$800,000
Paid Search (clicks)	3.00%	1,666,667	\$.50	\$833,333
Television	.05%	100,000,000	\$.02	\$2,000,000
Radio	.01%	500,000,000	\$.013	\$6,500,000

As demonstrated above, a \$150,000 WOM media campaign can deliver 50,000 consumers who indicate intention to purchase a product. This same result would require a \$300,000 print investment, an \$800,000 online (display) investment, or a \$2,000,000 television investment.

> **DEPLOYING WOM WITHIN THE MEDIA MIX**

Although media may appear to be competitively priced, the varying levels of media effectiveness impact relative value. Many media mix studies demonstrate the value of integrated media plans against an index pegged to deploying a single media tactic, such as television-only. We've found that WOM complements multiple forms of media while offering a compelling value proposition throughout the purchase funnel.

This is our point of view. What's yours? Is our analysis too WOM-biased? Or have we only scratched the surface of the sales-related impact of WOM?

