Electronic Word of Mouth

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1 Word-of-Mouth – The Classical Way of Information Diffusion

Referral marketing through friends has for years experienced much attention in science and practices. In the German literature the terms "mouth-to-mouth-propaganda" or "mouth-propaganda" are found, but also "Word-of-Mouth" (WOM), widespread in the Anglo-American world, has become common

The phenomenon of (classical) WOM constitutes a special form of social influence in consumer behavior and is one of the most established approaches in relation to the provision of product information. In this context, recommendations for potential customers will be provided from the subjective point of view of the consumers. WOM can be seen as an informal communication between (potential) consumers about products and services (e.g., Arndt 1967). WOM develops and spreads mostly without the support of a company, so that information dissemination can progress quickly. Various studies have shown that WOM is more commonly used for decisions concerning purchases and have deployed a greater impact than traditional communication tools such as advertising, newspapers or sales staff.

Katz and Lazarsfeld (1964) found that WOM is the most important source of influence when deciding on the purchase of household products. Other studies support the enormous influence of WOM communication on purchase decisions. 75 % of consumers report to at least one person when they change their provider and describe the cause of change. Almost every second changing customer chooses his new provider according to WOM (Keaveney 1995). A strong effect of WOM can be attributed especially to products with a high risk value. Here again, WOM recommendations create a strong influence on the purchasing decisions of consumers. In addition, WOM is usually the only way to get to know something negative about a product. Although the effectiveness of WOM is undisputed in practice and literature, WOM is basically not controllable. Therefore, companies are deliberately trying to initiate certain WOM activities and to control their contents as far as possible (e.g., Hennig-Thurau et al. 2004).

2 eWOM – The Digital Way of Word-of-Mouth

The enforcement of Web 2.0 provided the theme WOM with new relevance. Thus, the advent of Internet-based communication allows a multiply increased diffusion of information compared to traditional WOM. The digital form of WOM, or electronic word-of-mouth (eWOM), obtained great importance in this context and represents a relatively new research area.

In literature, eWOM is often equated with the term "viral marketing". However, viral marketing refers not just to the process of WOM, but is rather understood as a category of a higher level. A detailed and specific definition is provided by Hennig-Thurau et al. (2004). The authors refer to eWOM as "any positive or negative statement made by potential, actual, or former customer about a company or product, which is made available to a multitude of people and institutions via the Internet" (Hennig-Thurau et al. 2004, p. 39). In contrast to the traditional WOM, eWOM communication takes place via the communication channel of the Internet (Dellarocas 2003). eWOM is therefore possible, for example, in emails, online communities, blogs, chat rooms, discussion boards, corporate websites, e-commerce and social commerce websites (e.g., Amazon) or in social networks (e.g., Facebook, Twitter). eWOM developed mainly due to the increasing use of the Internet and of new communication channels. Beyond this, the Internet makes an increasing amount of information available. For this reason, eWOM exerts a particular impact and plays an important role. Thus, the success of products and services in the age of Web 2.0 is increasingly no longer determined by reports and advertising in traditional media, but depends significantly on the online comments and reviews from like-minded consumers (Smith et al. 2007).

In its characteristics eWOM differs from traditional WOM among others in the form of information transfer. eWOM is mainly performed in writing and via Internet. Participants no longer need to be at the same place, and the information spreads faster and is anonymous. The messages are stored, can be subject to targeted search and be recalled by an unlimited number of people (Hennig-Thurau et al. 2004). Due to this potentially larger group of recipients, eWOM has a multiple and more effective influence on consumers as opposed to traditional WOM (e.g., Smith et al. 2007). Thus the classic WOM was still dependent on a particular environment and direct interpersonal communication. It was characterized among other things by the fact that it was emotionally charged and sent to a narrowly defined circle of friends and acquaintances. As with the classic WOM, eWOM can be positive but also negative.

Positive eWOM can contribute significantly to the success of a product or company. Positive eWOM can acquire new customers and may also reduce marketing expenses (Luo and Homburg 2007). Negative eWOM, however, can nevertheless have devastating consequences for a company's image and thus impacts on earnings. Furthermore, it can be said that the most extreme positive and negative forms of eWOM are becoming increasingly important (e.g., Chevalier and Mayzlin 2006).

3 eWOM Systems

eWOM systems provide a contextual, structural framework in which eWOM enables communication, and are in charge of the aggregation and processing of eWOM information (Becker et al. 2009). Depending on the business model of the eWOM-page, the purpose of the eWOM system must satisfy different needs on the sides of the operator and the users, and thus also the functional design differs. Becker et al. (2009) identify six key intentions: (1) Product review in comparison services, (2) promotion, (3) selection of a transaction partner, (4) evaluation of information, (5) neutral evaluation functionality, and (6) community-related features.

Examples are online market places such as Ebay.com in which two parties usually perform one-off transactions. Here eWOM is mainly used in order to establish trust and credibility between buyers and sellers (Smith et al. 2005). The system thus helps to select the partner for a transaction, but also serves to promote sales. Online opinion platforms, however, focus mostly on a more personal embedding of the eWOM communication. The business model of these operators is based on an active platform that thrives on sharing user-generated information. The users here are usually monetized by means of specially tailored promotional activities (targeted advertising) (e.g., epinions.com, caio.com, reviewcentre.com, qyve.com).

Based on the intentions, it can be assumed that ensuring the quality and credibility of the information lies in the interest of both the operators and the recipient, regardless of the business model. To ensure this, the operators have various functional design possibilities, as they can usually closely regulate the systems that mediate the eWOM-communication

and are partially controllable. Therefore we speak of "feedback mediators": structure, rights and opportunities are defined by the operator. Who exchanges which information with whom, how that information will be aggregated and displayed (text, audio, video) are variables that can be set by the operator, with the result that "such degree of control can impact the resulting social outcomes in nontrivial ways" (Dellarocas 2003, p. 1410).

Naturally the users' input is not a fully controllable variable. However, operators have different approaches to also control this factor: First and foremost, it is a concern of the system operators to encourage users to participate in eWOM. At the same time it is also necessary to prevent misuse and to filter inappropriate remarks from the entered content. Automatic filtering mechanisms, editors, and user messages are the most common methods (Smith et al. 2005). Studies comparing these different design options do this primarily from an operator's perspective (e.g., Becker et al. 2009) while the recipient's perception is often neglected.

eWOM systems are in general characterized by the following three core elements, even if their implementation may vary between the respective eWOM systems: (1) aggregated information (number of reviews, average user rating, rating distribution), (2) abstracts and/or full text review, (3) additional information (about reviewer status and profile, expertise, as well as comments and ratings of the usefulness of the reviews). In addition to these predefined functions commonly there is no direct communication between the reviewers/consumers, as with Allrecipes.com, Epinions.com, or Amazon.com. Direct forms of interaction are usually limited to ratings of other reviews as well as to the reference in the text to another reviewer's review which offers a possibility of interaction between reviewers and recipients. In this sense one can speak of reactive communication, since all comments are the answer/response to a product or service experience (Qiu and Li 2010).

4 eWOM in Social Networks

The new interactive and mobile communication technologies have greatly influenced the use of media and are adopting an increasingly powerful position. They

have changed the nature of the interaction of Internet users and aroused new needs. Product- and service-related experiences and opinions on the Internet have the potential to reach a global audience with the same product interests. In social networks this exchange of experience concerning products and services takes place with considerable speed and simplicity. The peculiarity of eWOM in social networks is that it addresses a known group of people. Social networking sites therefore offer a new way of interacting with other participants of this network regarding consumption decisions. The great potential of social networks lies in the possibility of linking a large number of potential consumers with social connections to each other. Due to the simple and rapid dissemination of opinions regarding products and brands with friends and acquaintances, eWOM communication takes on a new role in the context of social networks.

About 80 % of those who have already used social networks when purchasing products, regard social networks as informative during the purchase decision process. 62 % conduct research in social networks regularly for support in buying decisions (Knappe and Kracklauer 2007). The commitment of dissatisfied customers to generate eWOM in social networks is slightly larger than that of satisfied customers. While 26 % of the respondents like to report their dissatisfaction with products and brands in social media, only 23 % of those satisfied with products and services give feedback via postings on social networks. Almost one in five claimed to have published reviews in social networks. However, the users of social networks do not disseminate recommendations and product reviews without a certain intention. Nearly 40 % publish and disseminate the WOM in social networks with the aim to deliberately influence other individuals of the community (Heckathorne 2010). But not only consumers rate the widespread WOM in social media as influential in buying behavior. Companies also recognize that the eWOM communication "especially in social networks [...] of very high importance to the purchasing decisions of their customers" (Knappe and Kracklauer 2007, p. 142).

5 Further Developments

In the context of the increasing importance of new media and of the related

digitization of communication and interaction, eWOM has become increasingly important for customers, but also for businesses. In search of information on products and services the Internet is increasingly used. While a few years ago the decision to purchase relied on advertising and related professional information, today every third person actively uses eWOM and recommendations by online users when searching for information, according to representative studies. Personal recommendations (whether virtual or real) exert a stronger effect and are used more frequently than classical communication activities (advertising). Companies have responded to this development and increasingly shifted their marketing budgets to the online area. Amazon, for example, has canceled its entire budget for TV and print advertising in order to focus its activities on eWOM marketing (Heckathorne 2010). In future, researchers and business will increasingly have to address the question concerning credibility and identification of so-called fake reviews (Lis 2013). Also the handling of reports and of information regarding customer dissatisfaction represents a novel challenge. While in the past businesses tended to complain about the lack of negative feedback, often with reference to the loss of improvement potential, this finds itself expressively reflected in negative eWOM.

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