
**Marketing Expenditures
and Word-of-Mouth
Communication:
Complements or
Substitutes?**

Marketing Expenditures and Word-of-Mouth Communication: Complements or Substitutes?

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Marketing Expenditures and Word-of-Mouth Communication: Complements or Substitutes?

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Abstract

In this monograph we examine the extent to which word-of-mouth communication (WOM) plays a complementary and/or substitute role with regard to advertising. A review of the existing literature reveals the main similarities and differences between these constructs. We also examine the conditions in which a social contagion process is most likely. Specifically, our literature review helps us answer the following questions: whether WOM complements the advertising effect, when and how WOM can be a substitute of the marketing effort, and which issues limit WOM's ability to inform and persuade consumers. Published empirical evidence suggests that in most cases WOM complements advertising; however, three marketing strategies — viral marketing, referral reward programs, and a firm's creation of exogenous WOM — might work without advertising. This monograph concludes with a list of unanswered questions of potential interest to both researchers and managers.

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1

Introduction

Growing interest among scholars and practitioners centers on understanding whether and how advertising and word-of-mouth communication (WOM) might complement or substitute for each other. For example, the Word-of-Mouth Marketing Association (WOMMA) hosted a 2005 conference on “Word of Mouth vs. Advertising,” with the aim of determining how to reach customers through alternatives to traditional advertising and defining the circumstances in which advertising might be complemented by the effect of WOM. This event reflected an industry trend that prioritizes a combination of both sources of communication in marketing strategies. For example, Procter & Gamble, the world’s largest advertiser, devotes significant attention to its WOM marketing through its Tremor and Vocal Point programs, which it uses to reach consumers who have more referral potential and thus might promote its products.

Two reasons might explain this phenomenon. First, consumers exhibit declining interest in advertising and traditional media. For example, McKinsey & Co. reports that real spending on prime time television ads continues to rise, yet the number of viewers has

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plummeted (Gordon and Perry, 2005). A Deutsche Bank study of 23 consumer product companies also reveals that advertising generates positive cash returns for only 18% of them (Shore et al., 2004). Second, in the last two decades, revolutionary information and telecommunication technologies have shortened the spatial and temporal distances among people, which encourage the process of social recommendation. Short message services on mobile phones, online forums, and online product reviews represent three examples of how technology can facilitate the process of social communication. Yet in the same period, U.S. advertising spending grew, at least before the end of 2008 and the onset of the global financial crisis (ZenithOptimedia, 2010). Some advertisers refuse to accept the power of WOM or other nontraditional marketing sources (e.g., public relations), which minimize their control over the communication process and create the potential for negative comments that can undermine their brand images. However, the economic crisis is increasing interest in WOM, especially as corporate boards resist further investments in traditional advertising. Scholars thus report that WOM campaigns, such as referral reward programs (Biyalogorsky et al., 2001; Ryu and Feick, 2007) or exogenous word of mouth (Godes and Mayzlin, 2009), provide popular mechanisms that can inform and persuade consumers at lower costs to the firm. Many Internet-based companies rely on social interactions among consumers to leverage their growth (e.g., Amazon, eBay), and various well-known “brick-and-mortar” brands such as Starbucks, Zara, and Mercadona have built their reputations on the recommendations of their customers.

As a consequence, it is not clear when, how, and whether WOM and advertising should be incorporated into a single communication campaign, or whether they constitute completely different paths to reach consumers. This study therefore reviews existing literature on WOM and advertising to determine whether and how WOM provides a complement to or substitute of advertising spending within the firm’s marketing strategy.

We structure the remainder of this monograph as follows: In the next section, we highlight the main similarities and differences between WOM and advertising. After describing the conditions in which a

process of social contagion is more likely to occur, we analyze the complementary/substitutive relationship between WOM and advertising. Finally, we conclude with some implications of this review and its findings and some additional questions for further research.

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