

## **SmithBusiness Spring 2005**

### **Word of Mouse**

**Traditional advertising isn't enough anymore. In the digital economy, buzz-building relies on word of mouse.**

You've seen the previews and have probably formed opinions about this summer's potential blockbusters even though they don't hit the big screen for a few weeks. Logon to Yahoo! Movies to post your thoughts and you could help make your favorite flick the top-grossing film of the year. Whether it's movies, restaurants, products, services, or stocks, there is an online forum waiting for your input. And there are millions of people waiting to read it—people whose consumer power is swayed by the opinions of their fellow forum posters. If you haven't posted your opinion online, you're in the minority. "Through new technology, the wisdom of the few is being replaced by the knowledge of many," says Chrysanthos Dellarocas, associate professor of information systems. "The ability of the Internet to aggregate information is changing the world."

#### **Word of Mouse**

"In the late 1990s, the top consumer source of information about new ideas had a revolutionary switch from 'traditional advertising' to 'word of mouth,'" says Dellarocas. "One reason is that products have become increasingly complex and consumers have turned to the Web, specifically online forums, for insight."

Dellarocas' research focuses on the impact of Internet-based opinion forums on consumer behavior and the reaction of firms to the increasing influence of these new systems. With the proliferation of online forums, "word of mouse," as it is coined, has gained momentum as the most important dynamic affecting consumer behavior, says Dellarocas.

"Through information technology, it is easier and faster to spread experiences," says Dellarocas. "Our society is becoming mistrustful of corporate communication... the old cliché: '10 percent of the world influences the other 90 percent,' just doesn't hold true."

#### **Good for Consumers, Complicated for Firms**

"These forums matter and are good for consumers," says Dellarocas. The more information consumers have to make decisions, the better. At the same time, the growing importance of forums is forcing firms to rethink their marketing strategies, shifting resources from traditional print and TV advertising to campaigns designed to influence the ratings of their products in online forums.

"Competition has forced firms to engage in direct or indirect manipulation of forums; such as sending out product samples to frequent reviewers or posting embellished anonymous reviews about their own products," says Dellarocas. He believes that, under certain conditions, such "manipulation" practices will prove to be beneficial to consumers.

"Competitive dynamics will force firms to engage in such practices in proportion to their true quality. Thus, the combination of 'natural' and 'firm-induced' word of mouse will help consumers more clearly identify which products are good, and which are not so good."

#### **Are Current Online Forums Working?**

The design of forums can play an important role on the effectiveness of the market outcomes they induce. Dellarocas makes the case for a "science" of online forum design.

He provides a simple example: "Some forums, like eBay, base a seller's trust rating on the entire history of past reviews. Unfortunately, this means that once a seller has completed a sufficiently high number of transactions, subsequent ratings have a negligible effect on the average trust rating. This diminishes the incentives of experienced traders to maintain an honest behavior. A simple change in forum design can remedy this: If the forum is changed to only display each trader's most recent review history, traders will never become too established and will always have an incentive to behave honestly."

Dellarocas believes that more research is needed to find the optimal structure for online forums that will encourage large-scale participation, elicit honest opinions and deter attempts at manipulation. "The Internet's ability to solicit and disseminate individuals' opinions will impact the social dynamics of the 21st century similar to the way that mass broadcasting transformed culture and society in the 20th century," he predicts.