

Chapter 26

The Wisdom of the Crowds: Creating Value with Blogs and eWoM

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ABSTRACT

What happens when a classic tool meets the Internet? This is the question that word of mouth (WOM) marketing faces. Word of mouth marketing as the oldest marketing method was completed by oral communication. But since entering the Internet era, and especially with the advent of Web 2.0, the way people share information is more dependent on hands rather than mouth – that is, through the keyboard, mouse, and smart phones – to affect others easily. This chapter will discuss the blogs and eWoM from the business, technical, social, and political aspects to reveal how eWoM thrives in the age of the Internet.

INTRODUCTION

The advent of the Internet makes it possible for consumers to browse and search the review, information and relevant discussion regarding a certain product or service. Moreover, customers are also able to share his or her own purchasing experience, opinion and all knowledge about the product or service—all these adding up together becomes the so called eWoM (electronic word of

mouth), the alias of which is online word-of-mouth or sometimes word-of-mouse.

So what is the motive of eWoM? The basic motive lies in consumer's intention to disseminate positive or negative comments to others, based on his or her own attitude and opinion towards the product or service. In other words, when a consumer is happy and satisfied, he or she is likely to disseminate positive WoM; and when not satisfied, what he or she disseminates will be negative WoM.

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BACKGROUND

Literature Review

Word of mouth (abbreviated as WOM) refers to the process of conveying information from person to person. The traditional kind of WOM happens offline, and it plays a major role the buying decisions of the customers (Richins & Root-Schaffer, 1988).

WOM in a commercial setting means customers share their own opinions, attitudes, experiences, concerns and reactions regarding businesses, products and services with other parties.

With the quick development of Internet technologies, a new type of WOM is now prevailing, it is known as electronic WOM (eWoM). The eWoM communication is now quite vibrant via Web 2.0 applications such as online discussion forums, electronic bulletin board systems, newsgroups, blogs, review sites, and social networking websites (Goldsmith, 2006).

Research shows that WOM, based on social-networks and mutual trust, is quite influential. Interestingly, it seems that people are more likely to trust seemingly disinterested opinions coming from outside their immediate social network (Duana, Gub, & Whinston, 2008).

ISSUES

From the corporate perspective—what is the significance of eWoM? Why should a company know at all about eWoM and why should a company endeavour to implement a smart eWoM strategy?

Here are three ways that eWoM helps with a company's value capture:

Incremental Sales

As mentioned in literature review, it is already a proven fact that positive eWoM would bring in new customers, and eventually generate higher

revenue. In the meantime, reduces the costs of customer acquisition.

If the company reacts and respond to the negative eWoM in a proper and timely fashion, it will be able to protect the revenue by minimizing the number of lost customers.

Higher CSI (Customer Satisfaction Index)

During the process of eWoM communication, customers have a chance of self-expression, and such expression happens in an uncontrolled, natural way. Such utterance is valuable raw material for the firm to see what the customer's perception of the products/services is, what the pros and cons are in customers' eyes, what differentiates it from products/services from competitors or substitutes, what else customers are expect from the products/services (features that competitors have).

Facilitates Product Development

Testing takes up a big portion from a company's R&D budget. When launching certain products or rolling out new services, the firm always have to arrange such research activities as interviews, surveys, focus groups and so on.

However, it is inappropriate to say eWoM could replace surveys or focus groups. Companies could however make good use of eWoM as a tool/approach of market research, because customers contribute to the improvement of products/services through revealing their own feelings and experiences.

Another question comes from the consumer perspective: why should consumers care about eWoM? What value does it create for the consumer community?

Huang and Li (2007) used the concept and theory of "social capital" when discussing eWoM in beauty-care virtual communities in China. This theory of "social capital" was firstly introduced in 1980s (Bourdieu, 1986), which, according to

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