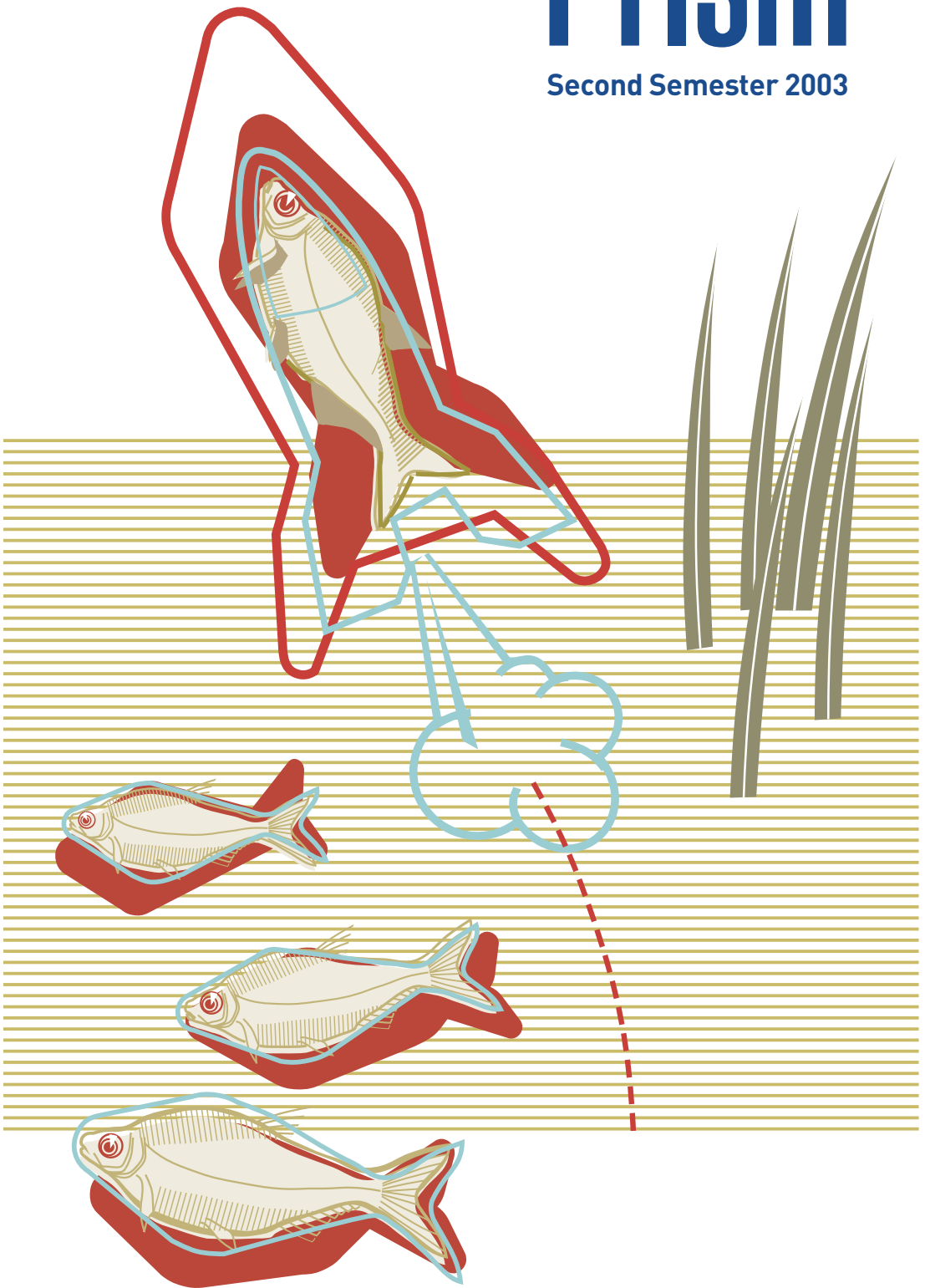


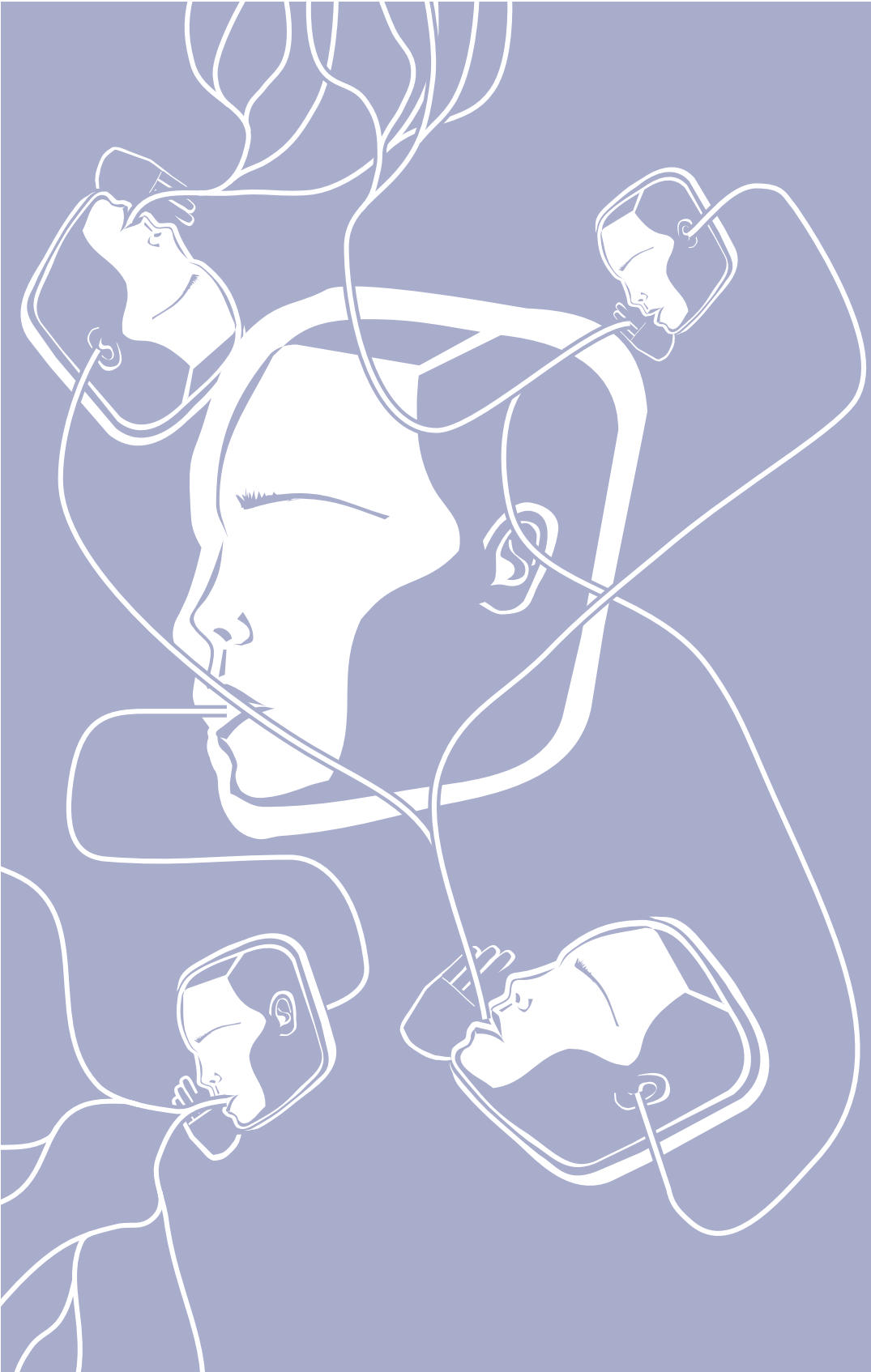
Prism

Second Semester 2003



Arthur D Little

Innovation at Work



Networks Work: Viral Marketing as a Tool for Launching Innovations

Jean-Luc Cyrot, Christian Urdl, and Ignacio Garcia Alves

Marketers face a problem: Consumers are bombarded with sales messages and react accordingly, namely they begin to ignore advertising entirely. At the same time marketing budgets are melting away. A new approach offers relief. When it comes to getting a message across to highly demanding consumers in little time, with minimal budgets seeking maximum effect, nothing on earth beats a viral marketing campaign. Marketers all over the world have picked up on this idea. Cyrot, Urdl and Garcia Alves shed some light into the “unknown practice” of Viral Marketing, its benefits, its influence, and the key factors of success.

Marketing is typically understood as an organized effort that influences people’s behavior through skillfully crafted messages. Luring customers into stores, getting audiences to chant a jingle, mobilizing communities to vote are all disparate actions based on the same principle of deliberately establishing a public forum. Yet final sales strongly depend on opinion leaders, trendsetters, innovators or your first customers who process the communication, translate the message to others and influence the purchasing behavior of their environment. These individuals drum up the marketers’ messages by conspicuously displaying their recent purchases, vocalizing their thoughts and urging others to follow their lead.

But when, why and how does this process start that opinion-leaders, trendsetters, innovators, or your first customers start spreading marketing messages, which help a company to increase its sales?

That’s where Viral Marketing comes in: It describes a strategy that encourages individuals to pass on a marketing message to others, creating the potential for exponential growth in the message’s exposure and influence. Like real viruses, such strategies take advantage of rapid multiplication to bring the message to thousands, even millions.

Viral Marketing depends on a high pass-along rate from person to person. If a high percentage of recipients forward something to many friends, colleagues or spread it via databases, the overall growth snowballs quickly. Viral Marketing works best via trendsetters and innovators.

In France most people learned about Viral Marketing back in the 1970s when an extravagantly dressed Fabergé shampoo model spelled out the secret formula: “I told two friends, and they told two friends, and so on and so on...”. That sort of pass-it-on marketing was called word-of-mouth back then.

Benefits for the Consumer – why Viral Marketing is so up-to-date

There are a number of reasons why Viral Marketing is beneficial for a company that works in any sort of market and why it has been revitalized.

- Viral Marketing is an essential tool to increase customer orientation as the marketing is done by the client for the client.
- Viral Marketing is a marketing and innovation tool that was brought back in fashion by e-companies (Hotmail revolutionized the approach) and for several years many industries have discovered the relevance of Viral Marketing for their business.
- Viral marketing is more than a communication campaign. It's a complete marketing strategy (with its own marketing mix) particularly well adapted for new product/services launch.
- Viral Marketing is a very powerful tool to launch innovations within a very limited period of time with low costs.

Post-it 3M: a Famous Innovation Launch

A “historical” example of a successful innovation launch was the development of the nowadays world famous 3M Post-its. After inventing an adhesive which did not stick, 3M needed to educate the market. People didn't know what to make of the notes, and moreover, few wanted to pay for a product that competed with cost-free scrap paper. The simplest way to educate someone is to do a demo.

In 1978, 3M marketers went to Boise, Idaho, for what has become known in 3M history as the “Boise Blitz.” They saturated the office supply industry with free samples and found that 90 percent of the consumers who tried the Post-it said they would purchase the product. In 1979, Post-its were introduced in Western states of the United States and it became such a success that some enterpris-

*Benefits of Viral Marketing:
quick product notoriety,
education of target consumers,
and strengthening of
perception as first mover.*

ing individuals even bought up as many palets they could get and shipped them to cities where it was not yet available. Post-its were eventually introduced nationwide in 1980.

To start extensive market penetration in 1980, the secretary of 3M's chairman sent a free Post-it to her equivalent colleagues of the Fortune 500. These secretaries used them, the CEO started to use them too. Shortly after that, pretty much everybody used them as well, generating increasing demand. In 1981, one year after the introduction of the product, Post-it was named the company's "outstanding new product". By 1990, Post-it notes were one of the five top-selling office-supply products in the United States.

Viral Marketing: the Best Marketing Tool to Launch Innovations Successfully

The most successful innovation launches have all been generated by a strong Viral Marketing effect. Viral Marketing is perfectly adapted to a new product as it helps to:

- Generate fast product notoriety within a target segment without spending huge amounts of money on mass advertising,
- Educate the target customers how to use a new product/service,
- Strengthen the perception of setting standards in order to be considered the first mover (competitive advantage).

In the past Viral Marketing used to happen by accident. Nowadays marketers are looking for ways to "infect" consumers with their messages.

Arthur D. Little has helped many companies with their innovation launch. The classic marketing-mix approach and tools are well designed for established products and long-term strategy, but are very often insufficient to help a company or a company product overcome initial difficulties.

Arthur D Little

Marketing for product or service innovation launches needs to focus on what Arthur D. Little calls the Viral Marketing principle:

- **Satisfaction:** First Time Right is the basis of positive Viral Marketing,
- **Simplicity:** the innovation must be memorable and easy to explain,
- **Segment:** start very small, think very big,
- **Scheduled targets:** reach critical mass per segment faster.

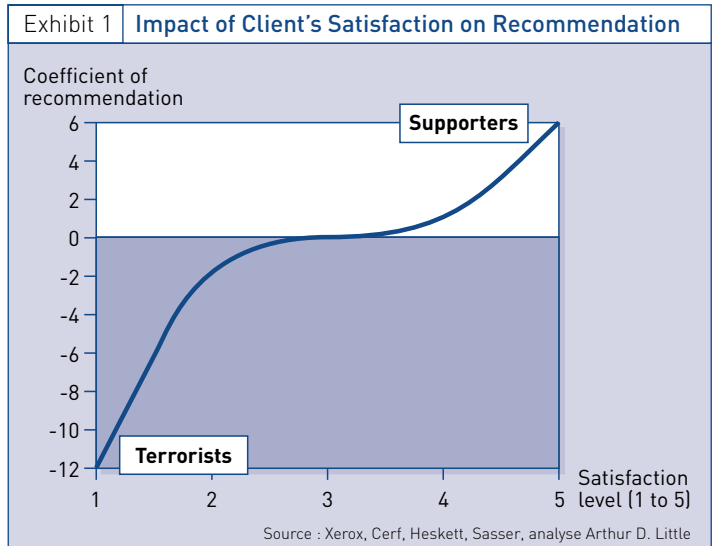
The aim of this principle is the maximization of the Viral Marketing impact thanks to a right idea, with the best multipliers, the best transmission mode and an optimized diffusion.

Satisfaction: First Time Right is the Basis of Positive Viral Marketing

The way people talk about a product or a company is directly linked to their satisfaction. For example, Xerox did a study a few years ago and discovered that their most satisfied customers were six times more likely to repurchase Xerox equipment (and recommend it) than those giving an average satisfaction. On the other hand, people who are not satisfied speak pro-actively and negatively two times more often than the satisfied customers. These people are dangerous “terrorists” for a product or a company. These results suggest that the first key success factor of a Viral Marketing strategy has to be customer experience and satisfaction.

Customer satisfaction doesn’t naturally last forever. Each segment penetration has to be carefully managed to avoid any negative word of mouth effect. Without a careful monitoring of customer satisfaction, the most loyal supporter can become a nightmare client. So even if a company is the best in class for customer satisfaction, one needs to carefully manage dissatisfied customers.

The way people talk about a product or a company is directly linked to their satisfaction.



Southwest Airlines is the fourth largest U.S. domestic carrier in terms of customers boarded, and the company has clearly integrated this issue. Southwest, one of the first low-cost airlines, is also one of the most awarded airlines in the United States and the company is particularly careful with dissatisfied customers compared to its competitors. It was the first airline to win the monthly Triple Crown award – Best On-time Record, Best Baggage Handling, and Fewest Customer Complaints. Since then they have won it more than thirty times, as well as five annual Triple Crowns for 1992, 1993, 1994, 1995, and 1996¹. In spite of this strong customer satisfaction, the Internet, which today is Southwest's main distribution channel, is not considered the proper medium for customer service. Southwest Airlines does not accept e-mail complaints, which is standard in the whole industry. The reason the company gives on its website is simple: "Call us traditional, but we elect to steer clear of the chat-style, respond-on-demand, quick casual format and focus on meaningful customer dialogue. This is not because we don't care. It's because that style counters our commitment to Customer Service. Our Customers deserve accurate, specific, personal, and professionally written answers." This approach is essential to avoid any unsatis-

¹ Duarte and Fisch in "Lessons from Market Liberalization since the 1990s" (Prism First Semester 2003) describe other examples in liberalized markets of "First Time Right" and commercial launches.

Google was launched in September 1999. Google became a world leader of search engines without any big communication campaigns in less than two years.

fied customer e-mail correspondence that could be forwarded by e-mail all over the country, which would be counterproductive to the company's strong positive image.

Another successful viral development is Google's success story. Google was launched in September 1999. Several famous search engines were already servicing early internet adopters. Their names are strongly associated with Internet history: Yahoo (1994), Lycos (1994), Altavista (1995), Excite (1995). Google became a world leader of search engines without any big communication campaigns in less than two years. The majority of the Internet users awarded Google the highest marks possible in almost all categories when compared to leading search services. Google ranked first in six of nine loyalty and satisfaction categories six months after its launch²:

- No. 1 Overall Site Effectiveness: Google ranked first among all sites surveyed in the following attributed categories: relevance of results, ease of use, speed, reliability, topicality of information, organization, fulfillment of user needs, value and comprehensiveness of results.
- No. 1 Overall Opinion of Site: Ninety-eight percent of Google users indicated an "excellent" or "very good" opinion of Google, and Google scored first among all sites with a record-setting 73 percent of Google users voting the site "excellent."
- No. 1 Site Recommended to a Friend: Google topped all sites with 97 percent of its users indicating that they would recommend Google to a friend.
- No. 1 Comparison With Other Sites: Ninety-nine percent of Google users rated Google to be "much better" or "somewhat better" than others, and Google topped all other sites with 80 percent of respondents rating Google as "much better" than the other sites in the survey.

² Tracking Study conducted by leading independent research company NPD New Media Services, 2000. The survey includes AltaVista, AOL.com, Ask Jeeves, Excite, GO Network, Google, GoTo, HotBot, Lycos, MSN, Netscape, WebCrawler and Yahoo!

- No. 1 Share of Future Visits: Google placed first among all participants as having the highest share of visitors who plan to return to its site.
- No. 1 Bookmark Rate: Among all sites, Google had the highest percentage of users who bookmarked its site, at 82 percent of those surveyed.

Thanks to this leading position in customer satisfaction criteria, Google reached more than 18 million search queries a day after six months of operation, 60 million after one year and more than 200 million after four years.

Simplicity: the Innovation must be Memorable and Easy to Explain

Viral Marketing is all about passing on a marketing message to others: the most simple message is easy to memorize and pass on.

Metcalf's Law: the network effect is the most well known booster of Viral Marketing. Metcalf's Law evaluates the value of a network with the square number of people using it. For example, if there are two participants, there is one possible interaction, with eight participants there are already 28 possible interactions.

The network effect is the most well known booster of Viral Marketing. Metcalf's Law evaluates the value of a network with the square number of people using it. For example, if there are two participants, there is one possible interaction, with eight participants there are already 28 possible interactions. With 1,000 participants there are 499,500 possible interactions! And communicative interaction has exploded. In 1900 people regularly communicated with 10 to 20 people (either face to face or through letters). In 1990, people regularly communicated with 50 to 100 people thanks to fixed telephony. In 2000, people regularly communicated with 100 to 300 people thanks to fixed and mobile telephony and the Internet. The value of individual communication networks has multiplied by ten in only ten years due to an increasing number of interactions offered by new communication technologies. Internet start-ups with very fast success (e.g. Hotmail, Google) have illustrated the exponential power of communication networks.

Simplicity in product and positioning is an underestimated booster of Viral Marketing. The Palm Pilot story is a good example of how important simplicity is. The first PDA product was launched in 1993 by Apple and was

Developing a simple message for the customer is a common job for marketers. But most of the time, developing a clear positioning for an innovation is much more difficult.

called Newton. Apple had made a big announcement during a consumer electronic show in Las Vegas and had over-promised and underdelivered, especially on the handwriting recognition feature. Microsoft, IBM, HP, Texas Instruments, AT&T, NCR, and Psion were all working on new PDA devices at the same time. The industry had identified the richness of the features as the key success factor. PDAs were supposed to have a PC card slot, spreadsheet, wireless communication – basically all features of a standard PC. Palm decided to focus on the 3 simple functions of an organizer (calendar, address book, task list) and added simple PC connection (Hotsync) and Graffiti writing (pen on touch screen). The customer promise was reasonable: “We didn’t call it a computer; we didn’t call it a PDA, we said this is a little organiser that happens to connect to your PC”. In the end, Palm had developed a more reliable product that was 60 percent cheaper and easier and faster to demonstrate than its competitors.

Developing a simple message for the customer is a common job for marketers. But most of the time, developing a clear positioning for an innovation is much more difficult. Most of the time, either the value proposition is too exhaustive to be memorable or the value proposition ends up being a meaningless slogan. The American marketing guru and author Geoffrey A. Moore has developed a simple formula to validate a positioning that “can create and occupy a space inside the customer’s mind.”

A good example of how not to do it was the launch of wap services on mobile phones in Europe. It illustrates the importance and the difficulties to communicate a clear positioning. Wap services represented an innovation for

the consumer. The main question for most of the people was (and still is) “what can wap services bring to my life?” The value proposition made by mobile operators on wap services was unclear: is it information? Is it gaming? Is it m-commerce? Is it e-mail? Marketers answered:

Exhibit 2

Geoffrey A. Moore's Innovation Positioning Formula

- **For** -----> The target customers
- **Who are dissatisfied with** -----> The current market alternative
- **Our product is a** -----> New product category
- **That provides** -----> Key problem-solving capability
- **Unlike** -----> The product alternative
- **We have assembled** -----> Key product features for your specific application

Source: Geoffrey A. Moore - Crossing the Chasm

“It’s all that!” But making a fast Viral Marketing start with such a foggy positioning is very unfortunate, since for the consumer it is too complicated to understand and explain to others.

Most marketers think that as there is no “data” service that everyone would want to use and pay for (the famous “killer application”), so mobile operators need to communicate on all the services available or at least the top five.

The paradox in this approach is that the same marketers were already working in the same industry ten years ago, but did not make the same mistake then. There simply is “no killer call” for mobile voice – a phone call is a phone call. The “killer call” of the business man (who probably calls his secretary) technically is not different from the “killer call” of a teenager or the “killer call” of a 30-year-old pregnant woman. Telecom marketers did not try to communicate ten different types of calls at the GSM launch in 1992. For if they had, GSM success would have probably been slower. The businessman would have been less convinced as nine ads out of ten would have been irrelevant for him, and most of other segments would have not paid for the initial GSM price.

Segment: Start Very Small, Think Very Big

Segmentation has always been a key element of marketing. The first reason for segmentation is that people do not have the same earnings, attitudes and needs. When launching a new product, marketers face the same challenge.

Segmentation has always been a key element of marketing. The first reason for segmentation is that people do not have the same earnings, attitudes and needs. When launching a new product, marketers face the same challenge. We can separate population in four macro-segments with completely different attitudes and needs concerning new products:

- **Innovators:** they represent the segment of people who are looking for new products in a specific market. This segment depends on the nature of the product: people who are looking for new technologies are different from people looking for new fashion or new travel destinations. Typically, this segment represents between five to ten percent of the total population considered.

- **Pragmatists:** they represent the beginning of the “mass market”. They are ready to buy any new product if they believe it’s worth the cost. They are the key target segment for any innovation with mass market objectives.
- **Conservatives:** they represent the third segment. They are ready to buy a product if either the product or the brand are established.
- **Latecomers:** they represent people who are reluctant to buy any new product either because of a budget problem, or a particular fear (fear of technology, fear of a different look).

For each of these macro-segments, a dedicated marketing approach has to be defined. Whereas innovators will look for the fastest and easiest product to use, pragmatics will look for the largest installed base and the most common standard. Viral Marketing among macro segments is hazardous as neither innovator nor pragmatist nor latecomer speak the same language.

Exhibit 3 The Four Phases of Innovation Adoption				
	Innovators	Pragmatists		Latecomers
	5-10% population	55-65% population		30-35% population
Segment specific needs	<ul style="list-style-type: none">• Be the first to test the new product	<ul style="list-style-type: none">• Improve / simplify life conditions• Improve performance	<ul style="list-style-type: none">• Reduce its concern• Minimize risks	<ul style="list-style-type: none">• No specific needs
Key question	<ul style="list-style-type: none">• What is it?	<ul style="list-style-type: none">• What is it for?	<ul style="list-style-type: none">• Who is the manufacturer?	<ul style="list-style-type: none">• How much does it cost?
Motivation of purchase	<ul style="list-style-type: none">• Technology• Product	<ul style="list-style-type: none">• Usage	<ul style="list-style-type: none">• Company / Brand	<ul style="list-style-type: none">• Commodity

Source: Geoffrey Moore, Arthur D. Little

Red Bull is a typical example of the barriers between segments. Red Bull is an energy drink which recruited “student brand managers” on campuses and sponsored extreme sports events to boost their sales. They published

mini brochures, and launched rumors concerning the aphrodisiac effects of Red Bull. Despite little marketing efforts and relatively high prices in the United States, Red Bull is now a leading drink in American nightclubs. Two years after Red Bull's launch, the sport drinks segment represented already more than four percent of all nonalcoholic beverages consumed in the United States. The impact for Red Bull in those two years was a boost in sales from one million to one billion cans.

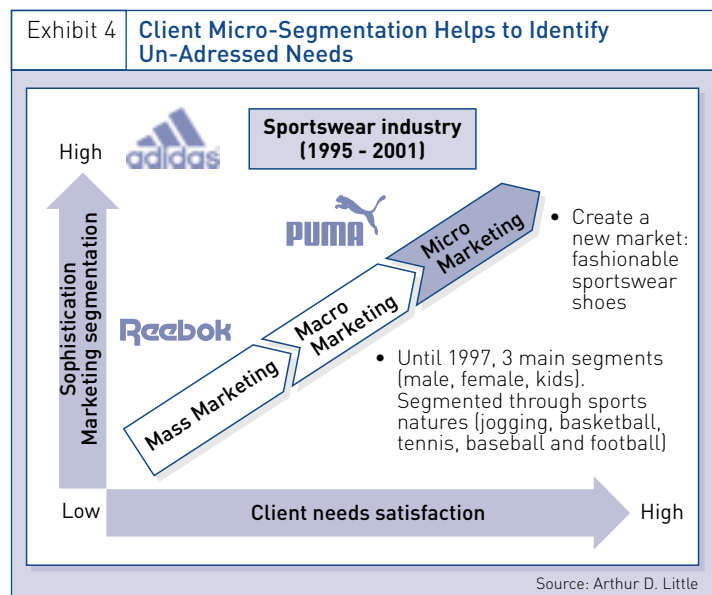
Part of the reason Red Bull did so well is that they stuck to one thing: energy. The strange taste (a bit like medicine in fact) proves the healthy effect to the customer. Today, 18 to 30-year-old clubbers love Red Bull, but their parents, aunts, and uncles are not giving up their Budweiser. Red Bull has been accused of promoting underage drinking. And on the internet rumors have been spread about one of the main ingredients, the amino acid taurine. The Viral Marketing effect between the two segments does not work. If the company wants to grow further and conquer the other segments, it needs to completely redesign its marketing mix.

The shoe segment of the sportswear company Puma is an excellent example of the ability to cross barriers between segments. In 2001, Puma relaunched its brand and product range through micro-segmentation. One of the segments created was the "fashionable sportswear shoes" segment. Their initial "innovator" niche target was the gay community. In 2001, they spent a complete year targeting only the gay community with a simple product (2 models in 3 colors), many accessories and dedicated communication and distribution.

Puma made a "quick hit" within the gay community in less than a year. The real challenge for Puma was then to enlarge its target to the 15 to 35-year-olds outside the gay community. Many failed to cross the barriers between segments (like Gola or Asics) as key purchasing factors of the gay community have nothing in common with the 15 to 35-years-old mass market. Puma decided to entirely redefine its marketing-mix:

- The product range was enlarged to many activities and sports (e.g. Pumaville, Puma football, Puma running, Puma cricket, Puma baseball, Puma motorsport).
- The communication and distribution was changed and Puma is now positioned as the “cool” shoe brand, sponsoring Jamaica’s athletic team.

Targeting a macro-segment at the launch phase is in many cases a common mistake. Disadvantages generated by a too large target segment at launch can account for much higher losses than opportunities generated by the mass targeting, leading to several risks:



1. Marketing effort is spread all over on mass targets, resulting in marketing pressure being much lower.
2. Products and services are more complicated by trying to embrace all types of client needs. The marketer enters a vicious product features cycle when viability decreases, price increases and simplicity disappears.
3. The network effect is diluted as people communicate along industry lines and through non-professional communities (students, hobbies, the Internet). For word-of-mouth to develop in any particular market-

place, there must be a critical mass of informed individuals who communicate from time to time and, in exchanging views, reinforce the product's or the company's positioning. So winning just a few customers in various segments will create little or no effect. Identification of one key micro-segment quickly conquered remains a key step in the Viral Marketing approach. Each product or service has different key micro-segments: for some products, a key micro-segment can be secretaries (e.g. Post-it notes) or top managers (e.g. Palm Pilot) whereas for some fashionable/trendy products, a key micro-segment can be celebrities (e.g. Adidas) or gays (e.g. Puma).

4. **The winner-takes-it-all battle is lost.** The reason to be niche-focused at launch is to amplify Zipf's Law (i.e. “#1 is much more popular than #2”), created by the linguistic professor with the same name from Harvard University. It is also called the “the-winner-takes-it-all battle”. Pragmatic customers want to buy from market leaders. As most of the time you can't dominate a market, you need to create your own market by segmenting the market in a better way.

Pragmatic customers want to buy from market leaders. As most of the time you can't dominate a market, you need to create your own market by segmenting the market in a better way.

The most common marketing tool to maximize the “winner-takes-it-all-battle” is the hit list. As a marketing tool it generates passive Viral Marketing for the target group: “If millions of people bought it, it must be worth buying.” The music and car industries and book editors use the hit list as their key marketing tool declined by micro-segment: the number one selling CD in Rock, the best selling new release, the best selling live edit, and so on – there literally is no end to it. This “hit-list” marketing tool can be used in many other businesses, like the hit-list of drink order in bars or the hit-list of the most visited weekend destination in travel agencies, for example. And the process works the other way round as well – just take a look at the Fortune 500 published every year where the slow movers, underperformers and weakest companies make up a page of their own.

At the very beginning of a product launch – even with the help of a better segmentation of the market – it is most difficult to become number one directly. The classic Viral

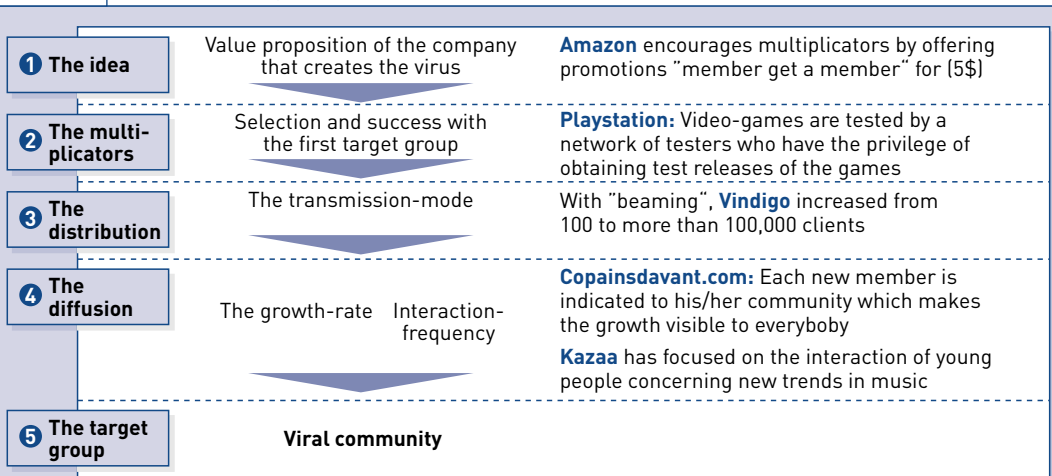
Marketing use for this specific moment is “shortage”. For example, at the Playstation 2 launch, Sony managed to spread rumors about product shortage and deliberately held back distribution resulting in lines of people queuing in front of shops for their Playstation 2. It was the same with new Pumas where a customer needed to visit three or four shops before finding one not being “out of stock”.

The Complete Viral Marketing Model

Viral Marketing basically follows the model of classical marketing approaches, but it has some characteristics that need to be considered.

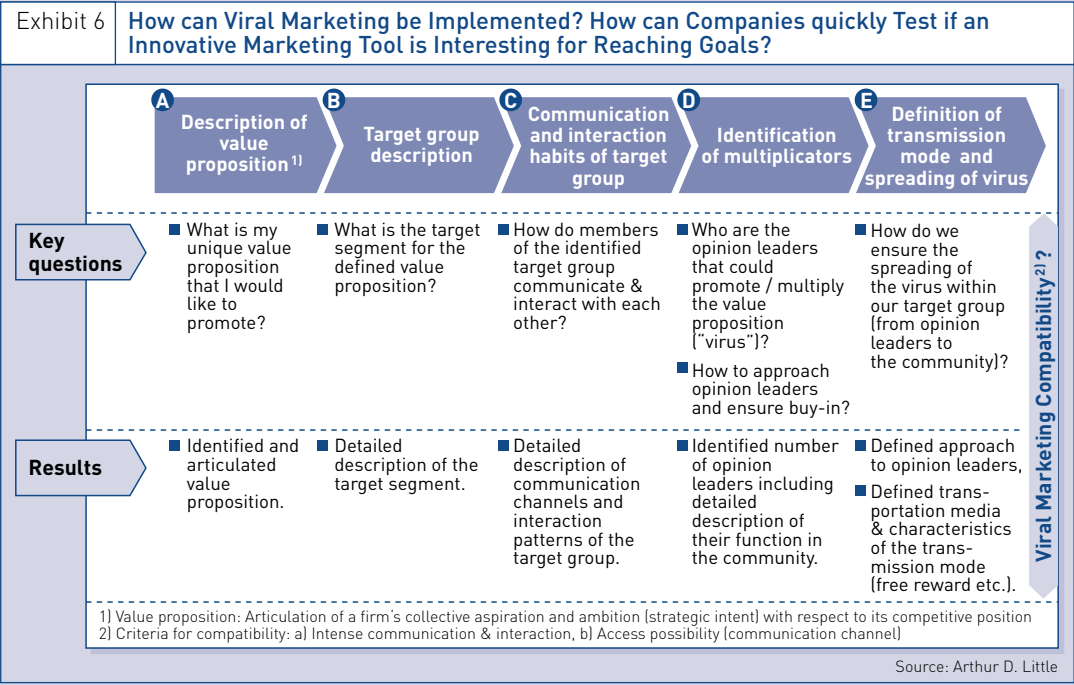
1. The idea – the value proposition of the company that creates and launches the virus.
The idea must be compelling and convincing, in a first step especially for the multipliers (the trendsetters, innovators, etc.) that are targeted and who should multiply the message to the target group.
2. The multipliers – probably the most critical issue of the Viral Marketing approach is (a) the right selection of the multipliers, (b) the right number of multipliers and (c) the combination of the right timing based on a success-promising value proposition.

Exhibit 5 Viral Marketing – The Model



Source: Arthur D. Little

- 3. The transmission mode – the mode of transmitting the message is not restricted to the Internet. SMS, MMS, print publications, broadcasting (TV, radio) – in fact a wide variety of distribution channels can be used for the transmission of messages.
- 4. The diffusion – the speed of diffusion is in the end decisive for the success. Two main aspects need to be considered. The growth rate of the community and the interaction frequency. The higher the interaction of the target group with internal or external group members, the higher the growth rate. This growth rate needs to be made explicit, because it might add value to the community and be an additional motivation factor.



Insights for the Executive

A successful Viral Marketing implementation is entirely based on the product quality and relevance. Using Viral Marketing without having a good product or service that perfectly match customer needs is useless and can even be disastrous. By the same token, having a good product or service that perfectly match customer needs without using Viral Marketing is wasting money.

Viral Marketing has gained importance over the last few years because customer retention rates have constantly declined. People have less trust in MNCs and their advertising campaigns and the word-of-mouth spreading of a message is critical for the success of an innovation.

That is why it is vital for companies to address those multipliers who have a big influence in their communities. Pepsi Co. got strong pressure from a privately-organized website who demanded the introduction of Mountain Dew in Germany. Hundreds of Mountain Dew fans entered that website and joined the originator of this initiative in demanding the introduction of Mountain Dew in Germany. Just recently Pepsi Co. decided to launch Mountain Dew in Germany. A sophisticated Viral Marketing campaign should aim to create such a pull-effect that communities are formed and stand behind a brand or idea. That is the future of Viral Marketing.

Arthur D. Little's Viral Marketing approach is based on these future needs and shows the basics that must be considered and integrated in a Viral Marketing campaign. Secondly, the implementation model gives guidelines for making a Viral Marketing campaign come alive.

Jean-Luc Cyrot

... is a Senior Manager of Arthur D. Little in France. He works on strategic and marketing issues in fast evolving markets. His clients include major players and new entrants in the telecommunications, security and manufacturing industries across Europe. Cyrot lectures in marketing in leading Grandes Ecoles in Paris. Cyrot holds a Masters degree in network and telecommunication from ENSTA Engineering School (France).

Christian Urdl

... is a Manager of Arthur D. Little in Switzerland. He is specialized on marketing, sales and customer management focusing on clients from the consumer goods and retail industries. He holds a Masters degree in Business Administration from the Karl Franzens University in Graz (Austria). Before joining Arthur D. Little Urdl worked several years in marketing positions of the Austrian consumer goods company Swarovski.

Ignacio Garcia Alves

... is the Managing Director of Arthur D. Little France. He has deep experience in corporate strategy and marketing strategy. Garcia Alves holds a Master of Science in electrical engineering from Delft University of Technology (the Netherlands), and a European Master's in management from EAP – European School of Management in Oxford, Madrid, Paris.