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Promotional Tactics for Online Viral Marketing Campaigns: How Scarcity and Personalization Affect Seed Stage Referrals

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Abstract

Against the backdrop of consumers being deluged with traditional online advertising, which is increasingly manifesting in inefficient conversion outcomes, viral marketing has become a pivotal component of marketing strategy. However, despite a robust understanding about the impact of viral marketing as well as of factors that drive consumer referral engagement, we know very little about the effect of traditional promotional tactics on consumer referral decisions. Drawing on a randomized field experiment in the context of an online fashion service named StyleCrowd, we investigate the effects of scarcity and personalization, two classical promotional cues that have become ubiquitous on the web and have received only minimal attention hitherto, on actual referral behavior. Our analysis reveals that using these cues in promotional campaigns is a balancing act: While scarcity cues affect referral propensity regardless of whether a campaign is personalized or not, personalization cues are particularly effective when scarcity is absent, yet are cancelled out when scarcity is prevalent. We demonstrate that consumers' perceptions of offer value drive the impact of scarcity on referral likelihood, while consumer gratitude vis-à-vis the marketer is the underlying mechanism for personalization's influence on referral decisions.

Keywords: Viral marketing; Word of mouth; Referral behavior; Online promotional campaigns; Scarcity; Personalization; Offer value; Consumer gratitude; Social capital; Randomized field study

Introduction

The rapid adoption of the internet on a global scale has led companies such as Facebook, Twitter or You Tube to substantially enhance connectivity between consumers and companies by enabling social networks, social media and user-generated content (Ratchford 2015). For many firms, this has made the web to the primary advertising channel for reaching potential customers (e.g., via banner ads or social media ad campaigns), at the cost of deluging them with often irrelevant information. Hence, it is not surprising that consumers have come to perceive traditional online advertising as irrelevant and overwhelming in quantity (Porter and Golan 2006), which in turn has led them to revert to channels such as word of mouth (wom) when gathering credible information about new products.

Against this backdrop, practitioners have increased their attention towards viral marketing, which refers to the process of deliberately tapping into the power of word of mouth by "using consumer communication as a means of multiplying a brand's popularity through customers spreading the brand name of a product or name of a company." Dollarshaveclub.com, Instagram and also Pinterest, which succeeded in growing its monthly unique visitors from 40,000 to 3.2 million users in only one year, are more recent success stories that have managed to leverage viral marketing to their advantage especially in their early days (Entrepreneur 2012; Techcrunch 2011).

Research on viral marketing has focused on the consequences on firm level outcomes such as sales (e.g., Chevalier and Mayzlin 2006; Trusov, Bucklin, and Pauwels 2009) as well as individual level outcomes related to consumer decision-making (e.g., Bickart and Schindler 2001; Chevalier and Mayzlin 2006; Nambisan and

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Baron 2007). Moreover, a comprehensive amount of literature illuminates factors that lead to participation in viral marketing campaigns (Angelis et al. 2012; De Matos and Rossi 2008; Hennig-Thurau et al. 2004) and examines content characteristics that enhance virality (Berger and Iyengar 2012; Berger and Milkman 2012; Stephen and Berger 2009). However, though there is a robust literature on the antecedents of virality, minimal attention has been paid towards classical promotional tactics that may enhance consumer referrals. Hence, our research intends to fill this gap.

The goal and main contribution of this paper are to shed light on the potential of scarcity (i.e., the deliberate shortening of product or service availability and the communication thereof) and personalization (i.e., the endowment of a promotional campaign with personal references such as greetings), two prominent and established promotional tactics from the offline world (Arora et al. 2008; Miceli, Ricotta, and Costabile, 2007), in influencing consumer referral decisions and therefore to expand our understanding of the antecedents of consumer referral behavior as suggested by King, Racherla, and Bush (2014). We focus on these particular cues in the context of our randomized field experiment because research has demonstrated their influence on factors which are also considered particularly critical to consumer participation in viral marketing campaigns, namely product or information value as well as consumers' need to reciprocate (Frenzen and Nakamoto 1993; Pihlström and Brush 2008; Sundaram, Mitra, and Webster 1998). Furthermore, these tactics have become popular among well established firms like Amazon.com and nascent ventures such as Mailbox, alike when generating awareness and attracting new potential customers (Forbes 2013a,b; Nextshark 2013). However, despite their theoretical and practical relevance, extant contributions on viral marketing have so far neglected the role of these cues as catalysts of consumer referral behavior, thus leaving a gap in the literature that needs to be addressed.

This paper is organized as follows. In the next section, we review prior literature on viral marketing. We then draw on literature on scarcity and personalization to round up the theoretical foundation of our research model. The following section presents the hypotheses regarding the effects of scarcity, personalization and their interaction on consumer referral decisions, including the relevant mediators. The subsequent section describes the research methodology used within our experimental study, followed by our data analysis and the results of hypothesis testing. Finally, we then discuss our findings, implications and directions for further research.

Theoretical Background and Related Literature

Viral Marketing and Drivers of Consumer Referral Behavior

Viral marketing focuses on the diffusion of product information by deliberately exploiting existing social networks to encourage people to make referrals to their friends (i.e., share news or information about a product or service) (Leskovec, Adamic, and Huberman 2007). In the context of online viral marketing particularly, referrals relate to passing along messages received by the marketer to one's peers. In essence, one can broadly describe viral marketing via two stages (Pescher, Reichhart, and Spann 2014). In the first stage, which focuses on firm created word of mouth and is often referred to as *seeding*, companies actively send their promotional campaigns to a targeted or untargeted audience of consumers (first stage actors). In the second stage, firms rely on peer-to-peer communications among consumers (second stage actors) for the efficient diffusion of the promotional campaign in their social networks. Referrals through first stage actors are essential to success, because the ability to reach second stage actors is contingent on the referral decisions made by first stage actors.

Firms revert to viral marketing campaigns mainly for broad reach and cost effectiveness. Broad reach results from companies encouraging customers to spread the message among their peers. In turn, when these peers decide to become customers, they are also encouraged to spread the message among their peers, leading the company to benefit from referrals among consumers and thus triggering a viral loop (Porter and Golan 2006; Van der Lans et al. 2010). On the other hand, cost effectiveness roots from the notion that consumers attribute higher credibility to messages that come from their peers and therefore are more likely to be acquired via referrals than via traditional advertising (Godes and Mayzlin 2004). Lastly, customers who are acquired through referrals are found to be more loyal and therefore more profitable (Trusov, Bucklin, and Pauwels 2009).

An often cited success story of viral marketing is the online file hosting service Dropbox, which managed to implement an effective referral system that led to a surge in its customer base from 100,000 to 4 million in only 15 months. Dropbox simply encouraged referrals by offering up additional storage for customers that successfully brought on friends (Veerasamy 2014).

The emergence of social media has played an important role in making it easier and faster to implement campaigns that can go viral (Stein and Ramaseshan 2014). Companies like Facebook, Twitter or LinkedIn provide platforms that make it very simple to share information with people that reach way beyond one's immediate network. Thus, firms often implement viral marketing campaigns by building minimal landing pages on the web to convey their messages or promotional offers and then spread links to these pages over social networks to generate buzz (Forbes 2013a,b; Ries 2011).

Research on viral marketing consists of two main streams. The first stream has mainly focused on its consequences such as the impact on sales, revenue or stock prices (e.g. Chevalier and Mayzlin 2006; De Bruyn and Lilien 2008; Trusov, Bucklin, and Pauwels 2009). However, a substantial amount of research has also showed how it may affect individuals directly in terms of purchase decisions (East, Hammond, and Lomax 2008) as well as pre- and post-purchase preferences and behavior (Bickart and Schindler 2001; Gauri, Bhatnagar, and Rao 2008).

The second stream of research has dealt with consumers' drivers for participating in viral marketing campaigns. Product involvement, self-enhancement, satisfaction as well as customer