

ADAPTIVE EXPERIMENTATION IN INTERACTIVE MARKETING: THE CASE OF VIRAL MARKETING AT PLAXO

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This case study shows how interactive marketing campaigns can be systematically fine-tuned and made more productive through adaptive experimentation. It details the use of adaptive experimentation in a viral marketing campaign at Plaxo, Inc., a company that provides Internet-based updating of personal contact information. The experiences of Plaxo highlight that even for a product that is amenable to viral marketing, growth is not guaranteed. To achieve a desired level of growth, Plaxo identified the product features that contributed to greater adoption conversion of recipients of its marketing message and improved them through continuous experimentation. To overcome potential negative side effects of aggressive viral growth, the company used a carefully crafted feedback loop via internet alert services that tapped into the blogging community. This practice allowed management to better understand negative perceptions of the product and take timely corrective actions.

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INTRODUCTION

One of the virtues of direct marketing is the ability to undertake some degree of experimentation with test mailings. This case study of Plaxo, Inc., an Internet service that updates changes in personal contact information across users' electronic address books, shows how continuous adaptive experimentation¹ focused on a viral marketing concept generated a tight feedback loop with its customers. This practice enabled the company to go beyond a tipping point of customer adoption into spiraling growth.

Viral marketing is a seductive concept. In a viral marketing campaign, a company uses the influence of its own customers to promote a product or service to prospective customers (Hanson & Kalyanam, 2006; Leskovec & Huberman, 2006). Viral marketing is an Internet adaptation of marketing using the word-of-mouth effects, a phenomenon originally identified by Rogers (1995) in the context of the diffusion of innovations. Viral marketing models promise hockey stick growth with little or no marketing expenditures (Jurvetson, 2000). The availability of a large network of users, coupled with a low-cost communication mechanism, drives the realization of this promise. Hotmail is one of the earliest cited examples of a successful viral marketing campaign (Montgomery, 2001). Viral marketing used to be restricted to online companies, but it is now increasingly used by marketing managers at Fortune 500 companies.² However, what seems less understood is that most viral attempts are likely to fail (Wilson 2000). Unless a viral engine reaches a point of "internal combustion," the effort is not likely to generate sustained growth (Gladwell, 2000).

This article takes the reader behind the scenes at Plaxo, Inc. We collected information by interviewing managers and examining the company's archival

records, including its patent applications. Due to this unique access, we are able to piece together the sequence of events behind Plaxo's successful viral marketing campaign.

Plaxo launched its product with a viral marketing campaign that ultimately attracted 5 million users in 3 years. However, although Plaxo's product is amenable to viral marketing, the company quickly learned it did not guarantee high growth. Months after a launch and a brief spurt in growth, daily adoptions dropped to just a handful of new users per day.

Given lackluster growth and a declining cash position, Plaxo used a viral growth equation concept and an experimentation process for optimizing its "viral engine." The equation helped explicitly identify features of the product that impact viral growth. Experimentation and natural selection were used to improve product features that impacted viral growth. This highly reasoned approach raised the viral index beyond a "magic" threshold and helped the company move beyond a tipping point in its market. Within 3 months of implementing the concept, its user growth increased to a desired level of 5,000 new users per day.

However, as the viral engine took off, it set off red flags among the Internet community. Criticism of Plaxo in blogs, chat forums, and press articles tarnished it as an invasion of privacy and a generator of spam. It seemed that Plaxo had become like the myth of the Ebola virus, growing so aggressively that it was in danger of killing its hosts. At that point, Plaxo was faced with a painful dilemma, abandon the viral approach or ignore the negative press, risking further damage to its brand.

In the end, Plaxo found a way to strike the right balance between spiraling viral growth and being a good net citizen. The company hired a privacy officer to get a fresh perspective and to investigate the privacy concerns that naturally occur with an address book updating service. Plaxo changed product features to moderate viral growth and established an active outreach program to turn its critics around.

The next section describes the problem of managing contact information and Plaxo's solution. Following that, the product launch is discussed together with

¹The term "adaptive experimentation" is defined in the AMA Marketing Dictionary as an approach (and philosophy) for management decisions, calling for continuous experimentation to establish empirically the market response functions.

²Burger King's The Subservient Chicken and Coq Roq, Ford Motor Company's Evil Twin campaign, Heinz's Ketchup Against Tomato Cruelty campaign, McDonald's "McRib Farewell Tour," Office Max's Elfyourself campaign—see http://en.wikipedia.org/wiki/Viral_marketing for many examples of major corporations moving into viral marketing campaigns.

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