Market share is correlated with word-of-mouth volume

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ABSTRACT

The *volume* and *impact* of positive and negative word of mouth (PWOM, NWOM) are investigated in relation to the market shares of brands. We find that the *volumes* of PWOM and NWOM are closely related to market share. By contrast, the average *impact* of instances of PWOM and NWOM shows no direct relationship with market share. When the direct influence of market share is removed, we find that small brands have somewhat more WOM than is warranted by their size, whereas large brands have slightly less, and this effect is stronger in the case of NWOM. The evidence presented here provides norms for evaluating WOM data and assists in the development of WOM metrics.

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1. Introduction

Brands owe their size to the combined effect of variables determined by firms (e.g., brand attributes, price, distribution and marketing communications) and the perceptions and actions of consumers (e.g., perceived quality, customer satisfaction, behavioural loyalty and word of mouth). Substantial attention is given to consumer-based variables, especially word of mouth (WOM). The term WOM describes person-to-person communication and is used here to cover high-intensity and low-intensity contacts, formal and informal platforms, and both offline and online environments. Marketers have taken a keen interest in WOM for many decades (e.g., see Dichter, 1966), but online consumer-to-consumer influence has re-invigorated popular and practitioner interest (e.g., Balter and Butman, 2005; Rosen, 2009).

Invariably, WOM is seen as either a direct driver of brand choice (e.g., where advice from a trusted friend or colleague is the main reason why one brand is chosen over another), or as a secondary influence (e.g., where advice from trusted friends or colleagues reinforces, or counteracts, messages conveyed by formal marketing communications). The *volume* (number of instances in a specified period) and the *impact per instance* (on purchase probability) of positive and negative word of mouth (PWOM, NWOM) are particularly important measures of WOM. These measures have the potential to provide managers with benchmarks for assessing the performance of their brands relative to empirical norms (e.g., "is the volume/impact of WOM for our brand high compared to directly competing brands?"). Similar benchmarking exercises are now routinely undertaken with regard to other consumer-based variables, notably customer satisfaction (e.g., the American Customer Satisfaction Index, ACSI, where a number of studies show that profitability is linked to satisfaction, see Anderson et al., 1994, 2004; Gruca and Rego, 2005) and behavioural loyalty (e.g., brand performance measures, such as those described by Ehrenberg et al., 2004).

As with any benchmarking exercise, there is first a need to determine whether there are norms and, if they exist, to describe them. The supposition is that bigger brands have more WOM – both PWOM and NWOM – than smaller brands. That is, WOM volume varies with market share. Intuitively, we would expect this to be the case. Many other consumer-based variables are known to vary with market share; for instance, measures of behavioural loyalty such as brand penetration, average purchase frequency and repeat-buying vary with market share, enabling researchers to describe various empirical norms such as Double Jeopardy and Duplication of Purchase (Ehrenberg et al., 1990). A further possibility is that WOM impact varies with market share; there is no evidence on this matter and, in this paper, we intend to provide evidence. An understanding of these associations is required if effective WOM metrics are to be developed since a score for a big brand may have a rather different performance implication compared to the same score for a small brand.

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We also consider the possibility of deviations from any norms that are found. WOM volumes might differ from the straightforward relationship between market share and WOM volume if large brands are seen as consistently better or consistently worse than small brands, inducing extra positive or negative comment. Assuming long-run stability in market structure, large brands could have less PWOM if this is offset by variables determined by the firm, such as greater weight of advertising or more complete distribution coverage. Such specific deviations will be important for individual brands at a particular moment in time but, from the viewpoint of establishing generalizations, the deviations that occur systematically have more significance than those that are idiosyncratic and restricted to a single brand. We describe these systematic deviations as "residual effects" and consider evidence for them later in the paper.

2. Research questions

2.1. WOM volume

There is much interest in gauging the propensity of customers to recommend a brand: high volume of recommendation is seen as desirable and something for which brands should aim. This, for instance, is explicit in the Net Promoter Score (NPS) that has been widely embraced by firms as they strive to capitalise on customer loyalty (Reichheld, 2003; McGregor, 2006). Specifically, the propensity of users to recommend their current brand is measured on a 0–10 scale; those scoring 9 or 10 are *promoters* whereas those scoring 0–6 are *detractors* and the percentage of detractors is subtracted from the percentage of promoters to give the NPS for a brand. Reichheld (2003) claimed that the NPS could predict the sales growth of brands better than the American Customer Satisfaction Index (ACSI). There is evidence that the NPS correlates directly with sales growth, but not that it predicts sales better than the ACSI (Keiningham et al., 2007). One possible weakness of both the NPS and the ACSI is the assumption that "one size fits all" – that the metric, as defined, is independent of the market share of a brand. Specifically, when Reichheld (2003) states that "the size of companies has no relationship to their net-promoter status" (p. 52), he assumes that a 10 for a small company indicates the same percentage growth potential as a 10 for a big company. We consider this assumption by asking:

RQ1(a): Are WOM volume and market share broadly related?

Even if RQ1(a) is generally true there may be systematic differences between PWOM and NWOM. A review of WOM effects in five categories found that people mostly recommend their current main brand (East et al., 2007). As a consequence, the volume of PWOM in established markets should reflect market share since, by definition, larger brands have more current owners. The same review also found that NWOM often related to previously owned brands, which implies that the volume of NWOM is related to past market share – this makes intuitive sense if people use NWOM to explain and justify why they no longer own a brand. Past market shares are often close to current market shares, but not exactly so, and therefore we expect an association between the volume of NWOM and current market share that will be weaker than that between PWOM and current market share:

RQ1(b): Is the association between market share and PWOM volume greater than the association between market share and NWOM volume?

There are a number of factors that might raise or lower WOM volume compared with a market share norm. First, WOM response is likely to relate to the weight of advertising expenditure (Bayus,

1985) and it is suggested that distinctive (creative) advertising gives consumers a topic of conversation and a script for them to talk about the brand, especially where directly competing brands are not themselves heavily differentiated (Barwise and Meehan, 2004). If there were a consistent tendency for share of voice to fall below market share, this might reduce the level of PWOM for big brands. We have not found clear evidence on this matter. On the one hand, advertisers often match advertising expenditure to sales (Jones, 1990), which would make it pro rata to share, but it is also evident that new (and therefore small) brands have to advertise disproportionately to become known and, by contrast, large brands sometimes take "holidays" from advertising. Reviews of advertising cases in the UK and Australia indicate that successful advertising for big brands can generate much greater return than successful advertising for small brands (East et al., 2008, p. 275); this would justify spending on big brands that is above the market share level.

Second, the needs of receivers may raise or lower WOM volume beyond market share norms. Evidence shows that the strongest catalyst to the production of WOM is the perceived need of the receiver (Mangold et al., 1999; Mazzarol et al., 2007) and this might lead to an emphasis on smaller brands about which the receiver is less familiar. There could also be a tendency to avoid giving advice on big brands *because of* heavy advertising; people do not want to tell others about things they already know from ads that they are likely to have seen. On the other hand, a contrary argument could be true – an exceptional emphasis might be given to big brands, over and above market share norms, because these are the ones most likely to be bought and are therefore the most relevant to discuss.

Third, the type of information that is conveyed may have an effect. Much advice relates to low price and it is claimed that leading brands tend to have above average prices (Farris and Reibstein, 1979); this would raise the level of PWOM on small brands and NWOM (about high price) on big brands. On the other hand, much advice is also about quality, and if there were a quality gradient from large to small brands, big brands would have more PWOM on this account.

From this review it is clear that no single factor appears to be well evidenced or of overriding importance, but these factors suggest that evidence for residual effects should be assessed:

RQ1(c): When the direct effect of market share is removed, does WOM volume show a residual relationship with market share?

2.2. WOM impact

With regard to WOM impact on brand purchase, it is possible that impact is affected by the characteristics of brands with different levels of market share. The average consumer may take more notice of comment about big brands because such a consumer is more likely to be a buyer of the big brand. In essence, this is a saliency argument – faced with equally attractive brands, the consumer focuses on the one that is most familiar and comes most readily to mind. Another argument relates to perceived quality. If quality varies with market share, and consumers express their advice more strongly for high quality brands, impact could relate to market share on this account.

RQ2: Are WOM impact and market share related?

3. Research data

Our approach is essentially concerned with establishing empirical generalizations. We wish to find the relationship of WOM volume and impact with market share using a substantial sample and