

Pucciarelli, Giachino, Bertoldi, Tamagno

Social Word-Of-Mouth as engine of growth for start-ups in their early stage

Francesca Pucciarelli, Assistant Professor, Escp Europe, Turin Campus, Corso
Unione Sovietica 218 bis, 10134 Torino

Chiara Giachino, Researcher, Dipartimento di Management, Università di Torino,
Corso Unione Sovietica 218 bis, 10134 Torino, chiara.giachino@unito.it

Bernardo Bertoldi, Researcher, Dipartimento di Management, Università di Torino,
Corso Unione Sovietica 218 bis, 10134 Torino

Davide Tamagno, Graduate at Escp Europe, Turin Campus, Corso Unione Sovietica
218 bis, 10134 Torino

ABSTRACT

The rapid growth of Web 2.0 coupled with its unique capabilities has increasingly captured the attention of scholars and practitioners, and the list of benefits for companies of any age, size, and geography is continuously accrued by new evidences. This paper contributes to the literature in the field by investigating the potential impact of Social Media, and especially of Social Word-of-Mouth (WOM), on a specific type of companies: start-ups. Start-ups are the new comers, the innovators that aim to disrupt entire markets and business models, but they suffer of some fundamental lacks: budget and credibility, and viral marketing could be the solution to the growth needs of start-ups to boost awareness and scale the business.

A two-steps methodological approach is proposed: a qualitative survey about individual perceptions and opinions of Word-Of-Mouth and start-ups; followed by an empirical experiment of information diffusion process in the ESCP Europe community, chosen as example of a determined and closed social network.

Results indicate that interconnected communities can enhance the WOM effect in supporting the growth of early stage start-ups, by increasing awareness and influencing individuals' buying decision processes, weak ties help in further diffuse the message, whereas monetary incentive are not important.

Given the fact that Social Word-Of-Mouth effect is confirmed as decisive opinion and behaviour booster when it comes from trusted sources of information (i.e. a close community), start-ups could and should leverage social network communities to sustain their growth in early stages and further.

Keywords: Social Media, Social Network Sites, Word-Of-Mouth, Social Word-Of-Mouth, Start-up, Strategy, Digital Marketing

Track: 8. Internet & Digital Marketing

Introduction:

The rapid rise of Web 2.0 and the almost universal adoption of social media are pinpointed as new marketing opportunities for companies from many parts. If originally, social networks were designed for conversational and sharing purposes, by adding functionalities and buyout, they became the 21's century dominant media: fundamentally changing the balance of power between companies and customers, democratizing communication and thus enabling individuals to inundate the web with their opinions about everything (Holt, 2016). As a consequence, companies of any age, size, geography and industry finally had to admit that engaging in social media is no longer an option.

What is new here is the unprecedented capability of Web 2.0 of spreading around new (and established) ideas enabling consumers to exchange real-time information and their thoughts with a much greater audience (Kaplan & Haenlein, 2010). The more likes, shares, and comments, the bigger the snowball effect, passing the message one to the other, allowing to reach people who don't follow (or even know) the original sender or brand (Broncanello & Tremiterra, 2015). If this snowball effect is true for any publisher, individual or company, could be argued that some company could be facilitated in leveraging the potential of these viral campaign because of their digital skills. Think for example at start-ups in general very familiar with social media, as often digital native themselves. It can be also argued that social media characteristics well address start-ups continuous quest for creative solutions to overcome budget constraints (Gandolfo & Lupi, 2014): enabling start-ups to reach a huge amount of people quickly, easily, and with a low budget effort (Graham, 2012). Furthermore, start-ups heavily rely on Word-Of-Mouth (WOM) to get to know and get known by the right audience interested in supporting their business: starting with founder talking about its idea to everyone to test it and gather feedbacks and other vital resources, talking to investors explaining why the start-up has potential, and so on and so further in the attempt of raising the highest level of interest on the entire community.

Considering that nowadays Social Network Sites are the main and most natural venues for online conversations among customers, the paper aim at demonstrating the potential impact of social Word-of-Mouth (sWOM) for growing start-ups.

1. Theoretical foundation:

The study of factors influencing probability of communication to reach certain individuals find its roots in the 60's, when Stanley Milgram, an US psychologist, approached social networks studying the mobilization of existing ties. Milgram's research about interpersonal relations in social network has been the basis for a lot of following sociological models, such as Coleman's association of social capital with "closed" networks, Granovetter's theory of weak ties, Burt's structural holes, and Domhoff's studies of social class (Coleman 1990; Granovetter 1973; Burt 1992; Domhoff 1967). Milgram (Milgram S., 1967) formulated an experiment in 1967 to test "The Small World" phenomenon that aimed to examine the average path length of Americans in social networks, demonstrating the existence of "six degrees of separation" to connect two randomly selected people.

The ability to connect with selected people –i.e. potential investors, early adopters, etc.- is crucial for start-ups in their growing phase. The growth stage is the core phase for a start-up (i.e. it determines the future success and size of the company), and it is strictly linked with the concept diffusion among potential customers willing to buy the product or service (Graham, 2012). This is the phase during which people are influenced mostly by the so called internal influence: the WOM communication (Mahajan, Muller, and Bass, 1990).

Word-of-Mouth is the essence of Viral Marketing, which is defined by Kaplan and Haenlein (2011) as “the electronic Word-Of-Mouth (eWOM) whereby some form of marketing message related to a company, brand, or product is transmitted in an exponentially growing way, often through the use of social media”. eWOM ability to exponentially grow marketing message is characterized by both speed of diffusion and volume of people reached with the viral campaign. A smart use of social media from a company perspective should leverage the four main pillars defining social interactions and relationships, described by emerge previous literature on eWOM and social networks: strength of ties (Granovetter, 1973), homophily (Gilly *et al.* 1998), trust (Nisbet, 2006), and interpersonal influence (Bearden *et al.*, 1989). In the next lines a broad introduction of the four pillars will be provided, and used as base for this paper hypothesis formulation.

The American sociologist Mark Granovetter, in his masterpiece “The Strength of Weak Ties” (1973) demonstrates that people outside our closed group of friends-so called weak ties- are the one that allow an exponential diffusion of a message over social networks thanks to their bridging characteristics. Weak ties are crucial to enlarge people background knowledge and to have a wider range of information exchange. Homophily –namely similarity in a social group of people- instead could have a blocking effect on eWOM as similarities do not lead to opinion seeking or passing. However, individuals that present a high similarity -e.g. the students sharing years sitting together in the same master of the same business school- are more likely to interact and to create clusters of strong ties, more narrowly targeted segments that could positively impact the influence of eWOM on attitudes and decision-making process (Dobele *et al.*, 2005), thus in start-up credibility and growth.

H1: WOM has a greater impact to grow a start-up when spread among weak ties rather than strong ties.

Trust, the third pillar of social interaction and relationship, affects, in social contacts, the information sharing and customers’ comments are one of the most relevant piece of information that deeply influence online communication channels (Dallarocas, 2003). References and comments build consumers trust and increase the likelihood of passing along the WOM. Lastly, interpersonal influence is a social construct that influences consumer purchase behaviours and decisions (Shu-Chuan & Yoojung, 2011).

H2: WOM has a greater impact on the growth of star-ups that relies on well-interconnected networks.

Moreover, as “the most important goal of every social network campaign is to maximize the spread of information across the network while keeping the campaign budget on a minimum level” (Radoslaw *et al.*, 2012), added to the chronic budget

constraint of start-ups, the role of incentives based campaign thus should be verified as potential eWOM enabler.

H3: A monetary incentive increases propagation speed of a viral campaign.

2. Methodology:

For the purpose of this paper ESCP Europe social community has been chosen for our experiment as example of a determined and closed social network with a focal centre – the ESCP Europe Business School itself- as proxy of a cluster of companies or people, and to test the processes of information diffusion in a determined and closed social network. The objective was to analyse the interconnectivity of the ESCP Europe community network with a particular focus on ESCP Europe’s start-ups network by measuring the average path length that separate the selected target people, three former ESCP Europe’s students now start-up founders, and a source audience of people, as well as the target people, ESCP Europe’s current students and/or alumni.

Three start-up founders were selected as target of our experiment, and six campaign were created (a version with incentives and one without incentives for each of the three target founders), using MailChimp to design, diffuse and track the email experiment results among participants.

A two-steps methodological approach has been to demonstrate the role of social WOM (sWOM) on start-ups growth. First a qualitative survey on WOM and start-ups has been sent out, using Google Forms, to ESCP Europe students and alumni to gather information about their online sharing behaviour to pass along messages over the Internet, to understand perceptions and opinions of individuals on WOM and start-ups communities. Including questions about people’s sharing behaviours and motivation to interact online with each other (H1); WOM and drivers that allow messages to go viral and to affect individuals’ decision-making (H2), with a particular attention kept on the role of incentives (H3).

Then a quantitative experiment, re-adapted by Milgram’s “Small World Experiment” has been run to analyse the information diffusion process, and prove the social network structure, interconnectivity, and its potential in information diffusion. And the expected result is much less than the 5.2 intermediaries calculated by Milgram –and which gave birth to the celebre concept of “6 degrees of separation”- as such a number should be cut by web 2.0 unprecedented reach potential. And the use of internet, in the form of e-mails (instead of the physical letters used by Milgram) in our study is partially demonstrating it.

3. Results:

3.1. Qualitative survey

Out of the 203 individuals receiving the questionnaire, 129 respondents were (63,6%) ESCP Europe’s students and alumni and 74 (36,4%) were respondents outside the ESCP Europe’s network. The result of the questionnaire partially validated out hypothesis:

- H1: Granovetter's Strength of Weak Ties theory stating they would connect first with acquaintances, follows Friends, 36,0%, then Strangers 20,7%.
- H2: respondents showed a clear inclination towards the idea of interconnectivity in the start-ups' environment (with 50,3% of respondents agreeing with the fact that a start-up network is characterized by a clustering effect where everyone knows each other).
- H3: there is not a clear inclination towards the fact that a monetary incentive could strongly affect and enhance a WOM effect.

3.2. Small Word ESCP Europe community experiment.

The data gathered in the empirical experiment allowed us to define a degree of interconnectivity in the ESCP Europe network used as a proxy for the social distance existing in a closed community social network. Our analysis confirmed that the path length existing between two randomly chosen people in a defined social network is incredibly short (accounting for an average of 1.9 intermediaries in our experiment). Moreover, the proximity of people in a well-interconnected social network allows a more effective and faster diffusion of information among the community. Therefore, the magnitude of the information impact is more relevant and powerful in increasing awareness and influencing individuals' buying decision processes. Interestingly, also in the experiment results the poor efficacy of monetary incentive systems in networks where most of the people are connected with few intermediaries to one another. An important remark has to be made regarding the Word-Of-Mouth effect as decisive opinion and behaviour booster when it comes from trusted sources of information.

4. Conclusions and managerial implications:

The initial question of social media as possible strategy to boost start-ups growth, because of their capabilities to address start-ups need of spread around the world of their innovativeness, combined with their chronic need of resources -financial resources, credibility, awareness- to scale up successfully has proven to be confirmed. The manuscript thus contributes to the on-going debate on social media marketing application illustrating how a well-interconnected network can positively impact and accelerate the growth of a start-up, in terms of both customer base and opportunity seeking. The application of the social network's theory to a closed and defined social network sheds light on the importance of building a well interconnected network for start-ups that want to grow with low budgets in competitive environments. Moreover, the study covers and reinforces the role of WOM, and in particular sWOM, as a raising strategy to grow businesses in a more and more virtual world where information diffusion is strongly connected to success.

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