

A Study of Online Word of Mouth and Firm Performance

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ABSTRACT

With the rapid spread of the use of the internet and advancement in search engine technologies, online word of mouth, also called consumer generated media (CGM) has exploded. It is not surprising that some firms are wondering how to track and manage CGM and are being forced to re-examine the role of CGM on customer purchase decisions and customer-brand relationships. This research focuses on WOM in online communities (OWOM). Using a rich panel dataset of conversations of individual posters over time we investigate how the *nature of individual posts* relate to individual customer behaviors and resulting firm performance. We develop a customer level metric based on active and passive customer behaviors that are articulated by customers in online forums. We refer to this metric as our *Buzz-Action Score*. Given the individual level Buzz-Action score we derive two aggregate level metrics. We demonstrate the value of these metrics by showing how they relate to actual market performance.

Keywords: *Online Word of Mouth, Buzz, Random Coefficients Model*

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