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**The Economics of Word of Mouth:
Designing Effective Social Media Marketing for Magazines**

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Abstract

Magazines and social networks operate in two-sided markets with network effects. Social media offer an ideal platform for word-of-mouth marketing that uses peer recommendations to read magazines. Theoretical and empirical studies of social networks identify the potential risks and rewards from using social media to market magazines. These risks and rewards are used to develop social media marketing guidelines that include recommendations for measuring marketing effectiveness. The recommendations include effective tools and tactics that can be used to attract more readers, thereby increasing the magazine's circulation and value.

Keywords: magazine marketing, social media, word of mouth

Introduction

Many magazines operate in competitive markets, where effective marketing is essential for attracting audiences and advertisers. Social media websites allow members of a network to easily share information and recommendations, offering new ways to market magazines. Positive peer recommendations can be an especially powerful form of marketing (Albuquerque, Pavlidis, Chatow, Chen, & Jamal, 2012; Narayan, Rao, & Saunders, 2011). Many magazine readers use social media to discuss or recommend magazines (Media, 2012/13).

Social media sites attract millions of members with diverse interests. In 2011 social networks and blogs accounted for about 23% of the time Americans spent on the Internet, with online games a distant second, at about 10% of time online (Nielsen, 2011). Magazines often focus on audiences and advertisers with specialized interests, and social media allow users to create networks around shared interests. Magazines are using websites and social media to communicate with readers, find new article ideas, promote their online and print content, sell individual copies, market subscriptions, and test new forms of advertising (Albuquerque et al., 2012; Galarneau, 2009; Media, 2012/13; Sivek, 2010; Stahl, Schafer, & Maass, 2004).

Social media, however, are volatile. The economics of social media mean that most new sites fail to attract enough members (Evans & Schmalensee, 2010). Sites that attract enough members to

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create a stable network can rapidly lose those members if expectations about the site's quality start to decline (Evans & Schmalensee, 2010). Magazine websites can cannibalize print circulation (Simon & Kadiyali, 2007) if readers regard them as substitutes for print editions (Ellonen, Tarkiainen, & Kuivalainen, 2010; Kaiser & Kongsted, 2012).

This commentary develops guidelines for marketing magazines through social media. The focus is on using social media to attract readers without cannibalizing print circulation. The guidelines include measures to track the effectiveness of online marketing, along with specific tools and tactics that magazines can use.

The Economics of Magazines

Most magazines compete with multiple rivals that offer similar content. For example, consumer magazines in 22 different categories published 132,960 editorial pages in 2011 (Media, 2012/13). Magazines must effectively differentiate themselves from rivals to attract and hold readers and advertisers. Magazines often differentiate themselves by focusing on a specialized segment within a category, such as a fitness magazine for women or men. Another common strategy is to specialize by geography, such as city magazines. Other magazines specialize by both content and geography, such as national and regional business magazines. Effective marketing can help differentiate a magazine by creating a brand identity valued by audiences and advertisers (Ellonen et al., 2010; Nienstedt, Huber, & Seelmann, 2012).

The importance of differentiation in attracting an audience is summarized in the metaphor of magazines as a three-legged stool. Differentiated content attracts the audience leg of the stool and builds the circulation leg, which is used to attract the third leg—advertising. The economics of networks offer another metaphor for magazines that illuminates some characteristics they share with social media. Magazines operate in what economists call two sided-markets (Birke, 2009; Evans & Schmalensee, 2010; Wright, 2004). Magazines provide a platform where two distinct types of users—readers and advertisers—interact in a search for value (Wright, 2004). This interaction creates network effects that magazines exploit to become economically successful.

Network effects exist when the value of a product depends on the number of people who use it (Birke, 2009; Evans & Schmalensee, 2010; Wright, 2004). As more people use the product, it becomes more valuable to each user. A classic example is the telephone. As more people get telephones, the value of each phone increases because it can be used to call more people. Demand for networked products, such as telephones, also depends on expectations about the future size and characteristics of the network (Birke, 2009). Anticipated increases in size make a network more valuable, but anticipated decreases reduce the network's value. The value created by interactions between members of a network, such as telephone calls, is called a direct network effect (Birke, 2009). Value created by the characteristics of a network, such as telephones that include Internet access, is called an indirect network effect.

The extension of network effects to magazines is straightforward. As the number of readers increases, direct effects are created by the opportunity to share and discuss articles in the magazine. Indirect effects are created because the magazine becomes more valuable for advertisers. Advertisers

are interested in both the number and characteristics of readers, paying higher prices to reach readers with characteristics that predict interest in the advertised products (Kalita & Ducoffe, 1995). Magazine readers, therefore, benefit from direct and indirect effects. The indirect effects are created by the magazine's articles and advertisements for a range of related products. Advertisers benefit from these same indirect effects because they attract demographically desirable readers.

Magazines commonly exploit network effects. For example, publishing closely related editorial and advertising content attracts readers interested in the advertised products. This strategy creates a platform for exploiting indirect network effects valued by both sides of the market—readers and advertisers.

Revenue strategies also exploit network effects. Charging higher prices usually reduces the total revenue generated by a product's sales (Wright, 2004). However, total revenue in a two-sided market depends on how prices are structured on both sides. A firm can reduce prices on one side of the market to attract more customers and increase the network's value (Wright, 2004). The increased value allows the firm to charge higher prices on the other side of the market, increasing total revenue. Magazines use two-sided pricing by selling discounted subscriptions. The increased circulation allows magazines to charge higher advertising prices and increase the total revenue from advertising and subscriptions.

Setting Goals for Social Media Marketing

Like magazines, social media sites operate in two-sided markets with network effects (Birke, 2009; Evans & Schmalensee, 2010). Direct network effects on social media are created by the total number of members and their interactions with each other. Social media exploit indirect effects by selling advertisers, computer game developers, and other parties access to potential customers. Magazines can market themselves on social network sites using tools for content creation and interaction with audience members. Members of social networks can be encouraged to discuss or recommend magazines to other members of their networks.

The two-sided nature of magazines suggests goals for social media marketing. Magazines should increase direct network effects by encouraging readers to interact with other members of their social networks. These interactions will attract more readers, increasing the indirect network effects that make magazines valuable to advertisers.

Some risks of online marketing

One of the risks stems from magazines' lack of control over social media platforms. Social media sites control advertising and other revenue generated on their networks and set the terms for sharing revenue with users (Mirzaei, Odegaard, & Yan, 2012). Magazines should also be prepared if a social media site demands access to data generated by the magazine's use of the site.

Furthermore, magazines risk a reduction in printed circulation when they offer free access online to the content from the printed magazine (Kaiser & Kongsted, 2012; Simon & Kadiyali, 2007; Stahl et al., 2004). Online marketing can fail to attract new readers (Ellonen et al., 2010) if marketing efforts are not carefully designed.

Simon and Kadiyali (2007) studied 522 U.S. magazines and found “a negative relationship between the demand for digital and print magazine content” (p. 360). Content on websites ranged from no overlap with printed editions to the entire content of the printed edition. There was an average 3% to 4% reduction in circulation at magazines with websites, and a circulation reduction of 9% for magazines that placed entire editions online (Simon & Kadiyali, 2007). The study, which examined magazine websites from 1996 to 2001, concluded that digital cannibalization of print was likely to increase as Internet access improved.

A study of 67 German magazines examined the relationship between website visits, newsstand sales, and subscriptions between 1998 and 2010 (Kaiser & Kongsted, 2012). The study found that website visits primarily reduced newsstand sales but not subscriptions. The readers most likely to substitute websites for newsstand sales were men under 30 or frequent Internet users (Kaiser & Kongsted, 2012). The study recommended that magazines differentiate between online and printed content to avoid decreases in newsstand sales. For example, magazines can use websites to complement print editions by giving subscribers special access to restricted content online.

Ellonen et al. (2010) surveyed visitors to Finnish magazine websites and found that non-subscribers were less likely than subscribers to report that they planned to buy the magazines. The study concluded that non-subscribers either used the websites as a substitute for the printed magazine or were interested in other website features, such as chat rooms.

These findings (Ellonen et al., 2010; Kaiser & Kongsted, 2012; Simon & Kadiyali, 2007) suggest that magazines should use online marketing to target non-readers or casual readers who might be convinced to subscribe. Magazines should reduce the risk of cannibalization by limiting overlap between print and online content.

Magazine executives hope to eventually generate enough revenue online to offset declines in print advertising revenue (Galarneau, 2009). However, anecdotal evidence suggests that online revenue is a fraction of the advertising revenue from print. For example, Galarneau (2009) reported that Hearst, in spite of its adoption of a complex online strategy, generated only “8-10% of its 2008 revenue from the web” (p. 91).

Magazines should also monitor results from online marketing to ensure that they are increasing subscriptions and circulation. Monitoring should include comparing audiences and revenue on social media, on magazine websites, and in print. Magazines should know how many readers and non-readers are in each audience. Magazines should also know how much revenue per reader is generated on social media, on their websites, and in print. Magazines should monitor conversion to subscription rates in each audience. Trends in these metrics can help determine whether social media marketing is cost effective.

Building Healthy Networks

Businesses that rely on network effects—magazines and social networks—can fail even if they enjoy a period of growth at first (Evans & Schmalensee, 2010). Magazines that use social networks should understand how to guard against this possibility. Some strategies are outlined below.

First, social networks must attract a critical mass of users to create a stable equilibrium (Evans & Schmalensee, 2010). However, many social networks never attract enough users to succeed. Some networks reach critical mass, then begin losing members to a newer, more attractive competitor (Evans & Schmalensee, 2010). Friendster and MySpace are high-profile examples of networks that had millions of users before losing out to newer competitors, such as Facebook (Ng, 2011).

Social networks can create switching costs to discourage members from leaving (Martin, 2008). For example, photo libraries or integration of multiple email addresses with contact lists create switching costs if a user cannot take them to another social network. However, the decision to remain in a social network is based on the network's current quality and expectations about how quality will change in the future (Evans & Schmalensee, 2010). If expectations change, so does the decision to stay or leave for another social network.

Changing expectations explain how social networks with a critical mass of users continue to grow or start to shrink. Evans and Schmalensee (2010) model how expectations are influenced by a user's interest in uploading or downloading content. Large or growing networks are attractive to "uploaders [who] value the popularity and reputation-building that come from attracting a large audience, while the downloaders value having a larger pool of content to choose from" (p. 13). Growth becomes self-reinforcing if members expect increasing participation and quality, but decline can also be self-reinforcing if members expect decreasing participation and quality (Evans & Schmalensee, 2010). Many people join multiple social networks, called multi-homing, making it even easier to reduce or end participation in an individual network (Evans & Schmalensee, 2010).

The description of how social networks grow or shrink may be familiar to magazines. They can also attract enough readers to reach critical mass, then grow or shrink in response to changing expectations about content and quality. Readers and advertisers often multi-home by reading or advertising in several magazines. Magazines should, therefore, understand the importance of constantly reconsidering their social media marketing efforts to make sure quality does not decline. The marketing effort should also accommodate network members who want to upload content.

Magazines themselves should multi-home by using more than one social network to market themselves. Multi-homing may require that magazines learn how to use each network effectively. But diversification is important because it increases the reach of marketing and provides a hedge against declining participation in networks that have passed their prime.

Magazines should also monitor how marketing on different networks affects the audience and revenue measures. For example, how does the number of posts on different networks affect membership in a magazine's social network?

Last but not least, magazines should monitor how many audience members in a social network interact with the magazine and how many interact with each other. How many in each group become readers of the magazine?

How Word of Mouth Works

Word of mouth (WOM) is informal communication between individuals about a product, such as a magazine (Choi, Bell, & Lodish, 2012; Ellonen et al., 2010). Positive WOM, such as a recommendation, can influence intentions to purchase the product by creating a powerful “social multiplier” for marketing efforts (Choi et al., 2012, p. 755).

Narayan et al. (2011) tested a model of WOM on social networks. Some members have a general preference for products they do not consume. Preferences change in response to recommendations from peers who consume the product. The changed preference is a weighted average of the member’s original preference and the recommenders’ preference. This model predicts that peer recommendations can convince non-readers to sample a magazine covering topics that interest the non-readers. However, recommendations cannot convince someone without any interest in the topics to sample the magazine.

Narayan et al. (2011) tested this model in an experiment with college students. The experiment focused on WOM about specific attributes of electronic book readers, such as the Kindle. Three variables influenced the effectiveness of WOM on social media—uncertainty, diminishing returns, and level of participation in social networks.

First, uncertainty exists if someone is not familiar with a product (Narayan et al., 2011). As potential consumers become more uncertain, they are more likely to be influenced by peer recommendations. However, as recommenders become more uncertain, their recommendations have less influence (Narayan et al., 2011). This suggests that WOM is most likely to influence network members who are interested in a magazine but have not read it more than once or twice. Peer recommendations can also be effective for marketing new magazines. However, recommendations should be made by someone who is familiar with the magazine, such as visitors who return frequently to a magazine’s social media pages or website. For new magazines, recommendations from staff members and early readers should be influential.

Second, the influence of WOM starts to diminish as someone receives more recommendations. Narayan et al. (2011) discuss this in terms of reach and frequency, recommending that WOM focus on increasing reach. This suggests that magazines should encourage readers with the largest social networks to engage in WOM. Some examples include providing buttons to recommend or “like” content on Facebook and other sites. Magazine should also make it easy for readers to send out links to content via email or Twitter, and magazines should provide URLs that can easily be embedded in a reader’s own social media pages. Allowing readers to post comments on the magazine’s website and social media pages, and then letting other readers recommend or respond to particular comments, may also encourage WOM.

Third, two measures were associated with influence on social media (Narayan et al., 2011). The first is the number of social networks that someone belongs to, and the second is how often someone interacts with other members of their networks. These measures can be used to identify influential readers on a magazine’s social networking site and encourage them to participate in WOM. Magazines should identify frequent visitors or commenters and review their publically

available social media pages to see how active they are. Frequent commenters might be encouraged by including in their online ID the number of comments they have posted. Editors could engage in online conversations with influential readers and ask them for feedback about the magazine's articles and features. Influential readers could also be offered discounted subscriptions or free access to special features that might otherwise require a subscription.

Online WOM is more powerful if members of a social network live near each other because geographic density offline influences "the propensity of individuals to join an online social network," as found in a study of an online retailer selling large items (Choi et al., 2012, p. 757). Magazines, however, should experiment with references to reader locations in social media WOM. Reader locations might be gathered from information posted on readers' social media pages. A magazine might also offer a special promotion to readers who register with location information. Or a magazine could develop a mobile app that gathers location information from the tablets and smart phones where the app is installed. Of course, the app should follow guidelines for disclosing what it does and allow readers to opt out.

Effectiveness of Different Marketing Activities

One study of different tactics for marketing online magazines used HP MagCloud, a website for creating and selling magazines (Albuquerque et al., 2010). Small groups and individuals use HP MagCloud to create and print magazines about subjects such as photography, art, fashion, entertainment, or sports. Visitors can buy magazines as PDFs or order printed copies from HP.

Albuquerque et al. (2010) used HP's internal data and Google Analytics, a free tool that tracks website visits, to examine the effect of HP's public relations for MagCloud, user marketing, and price promotions. The study tracked visits and magazine sales for six months in 2009. Buyers paid an average of \$0.28 per page for magazines, including HP's \$0.20 charge and a markup on each magazine (Albuquerque et al., 2012). About 60 to 70 percent of sales occurred two to three weeks after magazines were uploaded to the site. Many buyers were creators or followers of magazines (Albuquerque et al., 2012).

Visitors were categorized in three market segments (Albuquerque et al., 2012). First, visitors arriving from search engines were considered least familiar with the magazines. Second, visitors arriving via a referral link on another Web page were considered moderately familiar with the magazines. Third, direct visitors who bookmarked the site were considered most familiar with the magazines. First-time visitors in all three segments were least likely to purchase magazines. Return visitors from referral links mostly read or purchased magazines. Direct visitors were most likely to create content for magazines. Content creators mostly bought their own magazines.

The findings on referrals suggest that WOM can help magazines increase both readership and sales. Magazines should also identify social media and website visitors by segment and track their activities.

The most important influence on magazine sales was the amount and variety of content on HP MagCloud. Increases in the number of two- to three-week-old magazines available for purchase

also increased sales (Albuquerque et al., 2012). This finding suggests that magazines should use social media to promote a variety of up-to-date editorial and advertising content.

HP's public relations events, an online newspaper article, and price discounts all increased visits to MagCloud (Albuquerque et al., 2012). Visits increased after online public relations events created by HP, but the new visitors were less likely than other visitors to purchase magazines. Meanwhile, free marketing by MagCloud's users, such as posting links on Web pages to articles in magazines, accounted for about half of all magazine sales (Albuquerque et al., 2012). A *New York Times* article about MagCloud produced the largest spike in visitors, but most new visitors were interested in creating content and did not become long-term MagCloud users. A temporary price discount of 20 percent also increased sales (Albuquerque et al., 2012). The study also found positive correlations between two free tools and activity on MagCloud. Statistics from Google Analytics were correlated with HP's internal data, which tracked activities on MagCloud. There was also a correlation between Google Trends, which monitors search terms such as "fashion," and the purchase of magazines that covered trending topics (Albuquerque et al., 2012). These findings suggest that WOM and price discounts are most effective for increasing magazine sales. Public relations and marketing can also increase visits to magazine websites, but conversion rates may be relatively low.

Discussion and Recommendations

Both magazines and social media operate in two-sided markets with network effects. The value of a magazine for readers and advertisers increases as the total number of readers grows. Network effects on social media create opportunities to attract more readers using a combination of marketing by the magazine and WOM.

Magazines should establish quantifiable goals for social media marketing. These goals should focus on increasing network effects by encouraging readers to interact with other members of their social networks. These interactions should lead to an increase in readers that enables the magazine to sell more advertising.

However, magazines must not allow social media or websites to become free substitutes for the printed magazine, which would reduce circulation. Magazines should monitor changes in readership and revenue in print and online to guard against cannibalization. Table 1 shows measures for revenue, circulation, and readership that can be used to make these comparisons. Changes in revenue per reader or conversion rates can also be used to gauge the effectiveness of social media marketing.

Table 1
Measuring the Effectiveness of Online Marketing

Measure	Social media	Magazine website	Print magazine
Audience trends	Visits/visitors	Visits/visitors	Newsstand sales
	Magazine's network size		Subscriptions

Sales trends	Conversion rate visits/visitor	Conversion rate visits/visitor	Conversion rate newsstand sales
	Conversion rate network		Renewal rate subscriptions
Revenue trends	Revenue per visit/visitor	Revenue per visit/visitor	Revenue per sale
	Revenue per network member		Revenue per subscription

Note: Revenue measures can use advertising, subscriptions, or both.

Magazines should also multi-home on social networks to increase the reach of marketing and diversify against the risk of membership declines on individual networks. Table 2 shows that content on social media and magazine websites should not duplicate content in print editions. A variety of online content should be updated frequently to maintain the quality of the magazine's websites. Social media users should also be able to contribute their own content, so marketing can target readers interested in quality as well as readers seeking popularity.

Table 2
Building Healthy Networks

Actions	Benefit	Cost
Multi-home across social networks	Extend marketing reach	Learning/managing multiple sites
	Diversify risk of membership declines on individual networks	
Differentiate content from print	Will not cannibalize print circulation	Create/find new content
Frequent updates of varied content	Create and maintain expected quality	Create/find new content
Encourage visitors to upload content	Attract readers who seek popularity	Some visitors might lose interest in magazine's content

Marketing should be used to increase visits to a magazine's social media or website. This is important because only a small percentage of visitors from any source are likely to become readers or subscribers. Table 3 shows that tools such as Google Analytics should be used to track the effect of marketing efforts. These tools should also be used to categorize visitor segments based on how visitors first arrive at the site and how frequently they return.

Table 3

Marketing Tools and Tactics

Tool	Use	Comments
Google Analytics/ Other software	Track/categorize visitors	Use indicators of familiarity such as where visit originated (search engine, link, bookmark) and frequency of visits ¹
Google Trends	Track searches on topics that magazine covers by geographic location	Use to create targeted marketing that includes contemporary search terms
Tactic	Use	Comments
WOM	Peer recommendations to read magazine	Enlist frequent visitors active in multiple social networks Focus on topics/features of magazine Most effective for non-readers interested in magazine's topics Target geographic areas where magazine readers are concentrated
Public relations/ advertising	Attract new visitors	Conversion rates may be lower than WOM
Price discounts	Encourage purchases of sample copies or subscriptions	Could be used in conjunction with WOM or other tactics

¹Albuquerque et al., 2012

Table 3 shows that magazines should encourage frequent visitors who are active in multiple social networks to engage in WOM. This is because WOM is most effective when someone familiar with the magazine makes recommendations (Albuquerque et al., 2012; Narayan et al., 2011).

In addition, Table 3 shows that WOM should include recommendations for specific articles, features, or other attributes of a magazine. WOM and other marketing can also be tied to the geographic location of readers and non-readers by offering editorial or promotional content focused on specific areas. Google Trends can be used to monitor search terms and identify topics to include in marketing. Price promotions can also be used to encourage visitors to sample printed or virtual copies of the magazine.

One important additional resource is the Word of Mouth Marketing Association <<http://www.womma.org/>>, which has information about how to conduct WOM ethically and legally. Word of mouth is regulated by the Federal Trade Commission <<http://www.ftc.gov/>>.

The marketing guidelines developed in this commentary will enable magazines to exploit the economics of networks (Birke, 2009; Evans & Schmalensee, 2010; Wright, 2004) and increase readership, advertising, and revenue. Cannibalization of print is a significant risk, but it can be avoided (Ellonen et al., 2010; Kaiser & Kongsted, 2012; Simon & Kadiyali, 2007). Recommendations for marketing tools and tactics are based on detailed empirical findings (Albuquerque et al., 2012; Choi et al., 2012; Narayan et al., 2011).

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