"The NPV of buzz: How and why the financial value of word of mouth became so important"

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ABSTRACT

They call it the age of connectivity. Confronted by data not available in the past, researchers and managers realize the extent to which people’s decision making depends on information about other’s behavior, via word of mouth or mere observations. Using social media tools such as Facebook, customers become even more connected in new ways. Many of the new start-ups of recent years aim to leverage on this connectivity, hoping to help marketers take advantage of market buzz to increase sales. Yet, a major challenge facing investors and managers in this area stems from the need to translate the social connectivity of customers to financial outcomes. Can we really quantify the monetary value to the firm due to customers’ of word of mouth? What are the implications to targeting behavior? Why should we kill customers to really understand their worth? And the hardest question of them all: Why in the world would Finance people be interested in all of that? Hopefully, at least some answers will be provided in the lecture, which will start with the development of marketing thought towards the age of connectivity, and will present the issue using some examples from my works in this area.