When it comes to social media, consumers trust each other, not big brands

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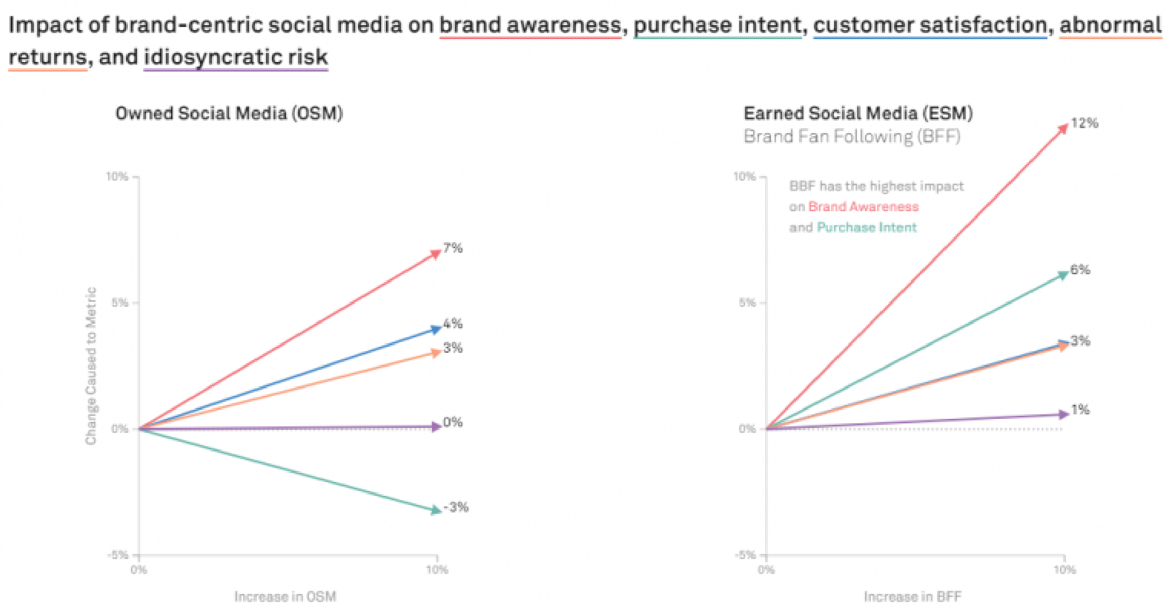

It's well known that the vast majority of America's largest corporations use social media platforms to boost their brands, especially Twitter, Facebook, and YouTube. But the precise link between consumers, social media, and shareholder value has gone largely unstudied—until now.

In a paper published online in the *Journal of Marketing*, Northeastern marketing professor Koen Pauwels and his research colleagues describe the impact of social media on stock market performance via three consumer mindset metrics: brand awareness, purchase intent, and consumer satisfaction.

What they found is that all social media posts are not created equal. Owned social media—that is, a company's own tweets, Facebook posts, or YouTube videos—is likely to increase brand awareness and customer satisfaction but not purchase intent. Earned social media—that is, what consumers say about brands on these channels—is even more valuable, potentially increasing all three consumer mindset metrics.

In particular, the researchers discovered that companies that increase their social media output by 10 percent can expect a 7 percent increase in brand awareness and a 4 percent increase in customer satisfaction. Likewise, every 10 percent increase in earned social media—based on brand fan following, or the number of Facebook "Likes," Twitter followers, or YouTube subscribers—will lead to a 12 percent increase in brand awareness, a 3 percent increase in customer satisfaction, and a 6 percent increase in purchase intent.

"Consumers look to their peers before making purchasing decisions, which is why earned social media is so valuable," explained Pauwels, whose research lies at the intersection of marketing productivity, metrics, and social media. "Both investors and consumers distrust companies who boast about themselves, because it's hard to know what weaknesses they're trying to hide."

What's more, the researchers found that consumer satisfaction and purchase intent are primary contributors to firm value. While higher consumer satisfaction was found to increase stock market returns, greater purchase intent was shown to both increase stock market returns and lower idiosyncratic risk—risk that is endemic to a particular stock and not a whole investment portfolio. To put this into perspective, Pauwels and his colleagues found that a 10 percent increase in purchase intent led to a 3 percent increase in abnormal returns—the returns generated by a given stock over a period of time that is different from the expected rate of return—and a 3 percent decrease in idiosyncratic risk.

The researchers used time series analysis—which can be used to examine how changes associated with one data point compare to shifts in other variables over the same time period—to decipher the link between social media posts on Twitter, Facebook, and YouTube, consumer mindset metrics, and shareholder value. In particular, they analyzed more than 270 days of data pertaining to 45 brands in 21 different sectors, all of which had to be listed on at least one of the two U.S. stock exchanges. Nike, Toyota, Starbucks, Citibank, and Netflix were among the brands included in the analysis.

According to Pauwels, the findings could be used to help marketers craft more effective social media strategies. "Rather than spending marketing dollars on owned social media to persuade customers to buy their products, marketers and social media managers should craft their OSM messages to target customers to improve brand awareness and customer satisfaction," he explained. "Due to the value-relevance of customer satisfaction, OSM that is targeted toward helping customers post-purchase, addressing their concerns, and reinforcing their purchase decisions is much more valuable than OSM crafted to persuade customers to buy the firm's products."

Another of the paper's myriad findings focused on brands with high reputations—including Microsoft, Delta, and Progressive. Based on the research team's analysis, corporations with high credibility are far more likely than brands with low credibility to increase purchase intent with their own posts. Put another way, convincing a customer to buy your brand in 140 characters is a lot easier if you have a great overall reputation—otherwise you risk backlash and millions of dollars in lost sales. "You need to understand your reputation," explained Pauwels. "If you have a good reputation, go ahead and post about your brand, but if you really want to increase purchase intent, let satisfied customers do the talking for you."

More information: Anatoli Colicev et al. Improving Consumer Mind-Set Metrics and Shareholder Value through Social Media: The Different Roles of Owned and Earned, *Journal of Marketing* (2017). DOI: 10.1509/jm.16.0055

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