

MARKETING COLLOQUIA

SPRING 2016

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Where: 741 JMHH

When: 12:00 PM to 1:20 PM

ENCOURAGING WORD OF MOUTH: FREE CONTRACTS, REFERRAL PROGRAMS, OR BOTH?

ABSTRACT: In the presence of positive externalities from using a product together, a seller has two tools to encourage word of mouth (WoM): She can implement a referral program, where senders of WoM are paid for referrals, or she can increase the expected externalities that the sender receives by ordering free contracts so that more receivers start using the product. Augmenting a classic contracting (product line design) problem with an initial WoM stage, we examine conditions under which one, both, or neither tools are optimal. In particular, our model explains why free contracts are particularly attractive for a seller that expects to have many free users."