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226. UGC VS. TRADITIONAL ADS: INFLUENCE ON CUSTOMER ENGAGEMENT

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Annotation. In the digital economy, companies actively utilise social media as a primary channel for consumer interaction and customer acquisition. One of the most significant tools in modern digital marketing is user-generated content (UGC). This paper investigates the impact of user-generated content on the effectiveness of marketing campaigns and its specific role in reducing customer acquisition cost (CAC) compared to professionally created brand content (firm-generated content, FGC). Through a comprehensive analysis of contemporary scientific research, this study examines the influence of UGC on consumer trust, audience engagement, and purchasing behavior across various industries. The findings indicate that user-generated content enhances brand authenticity, stimulates higher engagement rates, and significantly reduces marketing expenditures. These factors collectively contribute to a lower CAC, positioning UGC as a critical component of cost-efficient digital marketing strategies in the social media landscape.

Keywords: User-Generated Content (UGC), Firm-Generated Content (FGC), Customer Acquisition Cost (CAC), social proof, peer validation, consumer behavior, digital marketing strategy.

The digital transformation of the global economy, coupled with the meteoric rise of social media platforms, has fundamentally reshaped the dynamics of brand-consumer relationships. In the pre-digital era, marketing communications were largely a one-way broadcast, dominated by television, print, and radio advertising. Today, this paradigm has shifted towards a multi-directional, interactive model where consumers are not merely passive recipients of information but active participants in the creation and dissemination of brand narratives [1; 2]. Social media platforms such as Instagram, TikTok, YouTube, and Facebook have democratised content creation, empowering users to share opinions, experiences, and creative works with a global audience.

The implications of this democratisation extend far beyond the cultural sphere and into the core economic calculus of marketing operations. As the volume of user-generated content has expanded exponentially, the traditional advertising model has encountered diminishing returns. Consumers, equipped with the ability to curate their own digital environments and armed with growing skepticism toward overtly commercial messaging, have become increasingly adept at filtering out branded communications. This phenomenon has contributed directly to the steady escalation of digital advertising costs, as brands compete more aggressively for a finite and fragmented pool of consumer attention. Simultaneously, the proliferation of peer-to-peer communication channels has amplified the reach and velocity of electronic word-of-mouth, fundamentally altering the pathways through which purchasing decisions are formed. Where once a consumer might have relied primarily on a brand's own claims or a limited set of professional reviews, today's buyer navigates a dense ecosystem of user testimonials, visual demonstrations, and real-time feedback from existing customers. This shift has elevated the importance of trust and authenticity as primary currencies in the digital marketplace. Consequently, the strategic challenge for marketers has evolved from simply capturing attention to cultivating genuine advocacy that can propagate organically through social networks. In this environment, the ability to reduce Customer Acquisition Cost is inextricably linked to a brand's capacity to harness the authentic voices of its user community.

For businesses operating in saturated digital marketplaces, this presents both a formidable challenge and a significant opportunity. Those that successfully integrate peer-generated content into their marketing frameworks stand to gain a measurable competitive advantage in terms of both cost efficiency and consumer trust. Within this transformed landscape, user-generated content (UGC) has emerged as a cornerstone of contemporary digital marketing strategy. UGC encompasses a wide array of content formats – including social media posts, reviews, unboxing videos, testimonials, and blog comments – that are voluntarily created and shared by users rather than by brands themselves [3]. The proliferation of UGC is intrinsically linked to the rise of participatory digital culture and the ubiquity of smartphones, which enable instant content creation and sharing. Modern platforms are designed to facilitate this activity, allowing every user to function as a content creator, thereby blurring the lines between producer and consumer and significantly expanding the scope and reach of brand-related conversations [4].

Parallel to these technological and cultural shifts, the economic pressures on marketers have intensified. The cost of digital advertising has steadily risen due to increased competition for user attention, making customer acquisition a more expensive endeavor. Consequently, a key metric has risen to prominence in boardrooms and marketing departments alike: Customer Acquisition Cost (CAC). CAC represents the total sales and marketing cost required to earn a new customer over a specific period. It is a fundamental measure of business efficiency and directly impacts profitability and long-term sustainability. In highly competitive digital marketplaces, reducing CAC is a strategic imperative.

This paper posits that user-generated content serves as a powerful lever for reducing CAC. By leveraging authentic content created by their own customers, brands can lower production costs, increase organic reach, and build trust more effectively than through traditional advertising alone [5]. This study aims to provide a comprehensive analysis of this phenomenon. The primary objectives are: (1) to establish the theoretical foundations of UGC in digital marketing; (2) to compare the effectiveness of UGC against firm-generated content (FGC); (3) to analyse the mechanisms through which UGC drives audience engagement and influences consumer behavior; (4) to quantify the economic impact of UGC on CAC; and (5) to identify the limitations and risks associated with its use.

The academic literature has extensively explored the role of UGC as a pivotal element of digital communication. Its significance stems from fundamental principles of human psychology and social interaction, particularly in the context of information processing and trust formation. Research consistently demonstrates that UGC plays a crucial role in building brand trust and exerts a substantial influence on the consumer's path to purchase [6].

The core advantage of UGC lies in its perceived authenticity. Unlike traditional advertising, which is inherently persuasive and created with commercial intent, UGC is created by independent platform users. It reflects their genuine, unsolicited experiences with a product or service, often capturing real-life usage scenarios rather than idealised marketing portrayals. This peer-generated nature leads audiences to perceive UGC as a significantly more credible and reliable source of information compared to official brand communications [7]. The absence of an overt commercial agenda reduces consumer skepticism, a phenomenon often referred to as “ad blindness”. When a potential customer sees another user happily using a product, it acts as a powerful, tacit endorsement. This divergence in perceived authenticity becomes immediately apparent when comparing visual formats side by side, as illustrated in Figure 1 below. The stark contrast between a polished, brand-produced advertisement and an authentic, unpolished piece of user-generated content visually underscores why consumers place greater trust in the latter.

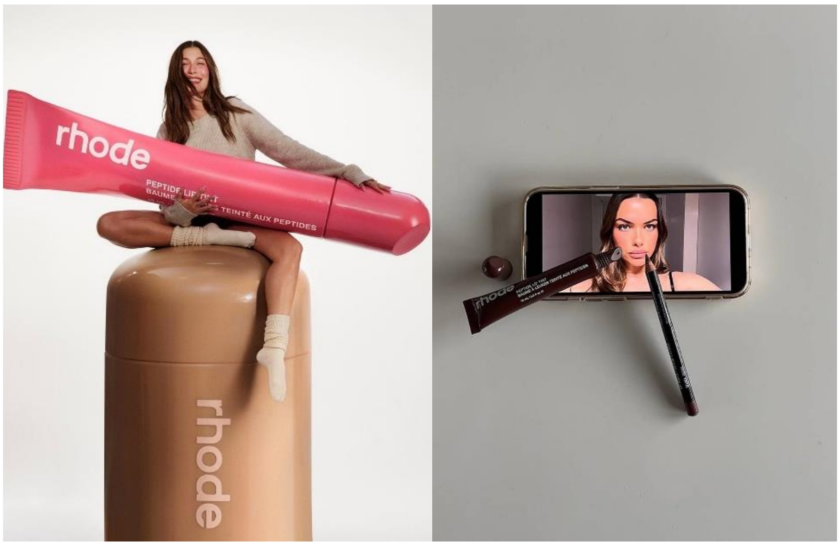

Figure 1 – Examples of a traditional advertisement and user-generated content

UGC is the primary vehicle for electronic word-of-mouth (eWOM), which has become one of the most influential forces in the digital marketplace. eWOM encompasses any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet [8]. UGC posts, reviews, and shares are all forms of eWOM. The influence of eWOM is profound because it leverages existing social networks. A recommendation from a friend, or even a trusted online reviewer, carries far more weight than a sponsored advertisement. Research indicates that consumers are significantly more likely to trust and act upon the recommendations of their peers, as this information is perceived to be unbiased and based on firsthand experience [9].

The effectiveness of UGC is underpinned by well-established psychological principles. The concept of social proof, articulated by Robert Cialdini, suggests that individuals, especially in situations of uncertainty, look to the behavior and experiences of others to guide their own decisions. When a potential buyer sees numerous positive reviews, photos, and videos of others using and enjoying a product, it serves as powerful social validation, reducing perceived risk and increasing purchase confidence. Furthermore, UGC facilitates social identification. Consumers often see themselves reflected in the content created by other users, particularly those who share similar demographics, lifestyles, or interests. This identification fosters a stronger emotional connection to the brand, as it is perceived as being "for people like me", thereby enhancing brand loyalty and community feeling.

To fully appreciate the unique value of UGC, it is essential to compare it systematically with its counterpart, firm-generated content (FGC). Both content types serve distinct but complementary functions within a holistic marketing strategy [10]. The comparative analysis presented in Table 1 highlights the fundamental distinctions between user-generated content and traditional firm-generated advertising across key dimensions of customer engagement, underscoring UGC's superior ability to foster authentic interaction and audience participation.

Table 1 – Comparison of FGC and UGC

Feature	Firm-Generated Content (FGC)	User-Generated Content (UGC)
Primary Purpose	Brand messaging, product announcements, promotional campaigns, image cultivation	Sharing personal experiences, seeking social validation, community building
Perceived Credibility	Low to Moderate. Often viewed with skepticism due to commercial intent	High. Perceived as authentic, unbiased, and trustworthy because it comes from peers
Cost of Creation	High. Involves professional production, agencies, talent, and significant time investment	Very Low to Zero. Content is voluntarily created by users; brands may incur costs for rights or campaigns
Control	Full control. Brand dictates the message, visuals, and timing	Little to no control. Brand cannot dictate content, which can be positive or negative
Engagement Potential	Moderate. Can generate engagement but is often passive consumption	High. Tends to spark conversation, shares, and community interaction due to its relatable nature
Consumer Trust	Low. Consumers are aware of the persuasive intent	High. Functions as a trusted recommendation from a peer

Empirical research provides robust evidence for the comparative strengths of UGC. Studies have found that UGC is significantly more effective at increasing audience engagement and positively influencing purchase intention than FGC [7]. For instance, campaigns incorporating UGC often see higher click-through rates and longer time spent on site. However, the effectiveness of each content type can be context-dependent. In industries involving high-tech or complex, high-value products (e.g., B2B software, financial services), consumers may actively seek out expert information provided by the company through FGC, as it is perceived as more authoritative and technically detailed [6]. Therefore, a nuanced understanding suggests that the most effective marketing communication strategy is not an either/or proposition but a synergistic combination of both. Brands can use FGC to establish their core identity and communicate key messages, while leveraging UGC to build trust, foster community, and provide social proof throughout the customer journey [10].

One of the most significant advantages of UGC is its unparalleled ability to drive audience engagement. Engagement, in the context of social media, encompasses a range of interactive behaviors, including likes, comments, shares, saves, and the creation of derivative content. This active participation is a far more valuable metric than simple reach or impressions, as it signifies a deeper level of consumer interest and investment in the brand.

UGC fosters engagement through several key mechanisms. Firstly, it is inherently more relatable. Content created by "real people" in "real-life" situations is more accessible and less intimidating than polished, professional advertising. This relatability invites interaction. Secondly, UGC often sparks conversation. A user's photo or review can prompt questions from other potential buyers, creating a thread of dialogue that builds community and provides valuable information organically. Thirdly, campaigns that encourage UGC creation, such as hashtag challenges or contests, directly incentivize engagement. When users submit their own content for a chance to be featured, they become deeply invested in the brand's success and are likely to share the campaign with their own networks, amplifying its reach [11].

High levels of engagement – visible through likes, shares, and positive comments – create a powerful feedback loop. This public activity serves as a potent form of social proof. A potential customer visiting a brand's social media page and seeing thousands of engaged users and a wealth of positive UGC receives a strong signal that the brand is popular, trusted, and worth considering. This peer validation is often more persuasive than any direct marketing claim the brand could make itself [12]. The accumulated engagement acts as a collective endorsement, significantly lowering the psychological barrier for a new customer to make their first purchase.

When users create and share content about a brand, they are performing an act of advocacy. This transforms them from passive consumers into active brand promoters. This advocacy is incredibly valuable because it is voluntary and perceived as highly authentic. Nurturing these user advocates by reposting their content, engaging with them, and making them feel valued can turn them into loyal, long-term customers with a high lifetime value (LTV). Research indicates that marketing campaigns rooted in UGC are capable of dramatically increasing the level of user-brand interaction, strengthening the emotional bond and fostering a community of advocates [13].

The economic rationale for integrating UGC into marketing strategy is compelling and multifaceted. Its impact on reducing Customer Acquisition Cost (CAC) can be broken down into three primary channels: direct cost savings, enhanced organic reach, and improved conversion rates.

Professional content creation is expensive. A single high-quality photoshoot or video production can cost thousands or even tens of thousands of dollars, encompassing costs for creative agencies, professional photographers, models, locations, and post-production editing. UGC offers a cost-effective alternative. By incentivising and curating content created by their own users, brands can access a vast and diverse library of authentic visuals and videos for a fraction of the cost. A simple hashtag campaign or a user review contest can generate hundreds of pieces of usable content. This significantly lowers the “cost per asset” and frees up marketing budgets for other initiatives, such as paid amplification of the most effective UGC pieces [5]. The savings in production costs directly contribute to a lower overall CAC.

In an era of rising cost-per-click (CPC) on platforms like Facebook and Instagram, organic reach is a precious commodity. UGC is a powerful engine for organic growth. When users create and share content featuring a brand, they expose that brand to their entire network of friends and followers. This peer-to-peer distribution acts as a form of free media. The network effect means that a single piece of UGC can be seen by hundreds or thousands of people without the brand spending a single dollar on advertising [4]. This organic amplification reduces the reliance on paid media to drive awareness and traffic, thereby lowering the variable costs associated with customer acquisition. Furthermore, when UGC is used in paid social campaigns, it often outperforms traditional creative formats, leading to a lower CPC and a more efficient use of the advertising budget.

Ultimately, the goal of marketing is to convert prospects into paying customers. This is where the trust and authenticity inherent in UGC have their most significant economic impact. The path to purchase is fraught with uncertainty for consumers. UGC acts as a powerful risk mitigator. Seeing a product in use by a real person, reading a detailed review from a verified buyer, or watching an unboxing video provides the social proof needed to overcome hesitation and make a confident purchase decision [9]. This leads to higher conversion rates on product pages and landing pages that feature UGC. When more of the traffic driven to a site converts into customers, the CAC (calculated as total marketing spend divided by number of new customers) naturally decreases. A higher conversion rate means the same marketing spend is now acquiring more customers, a direct path to improved efficiency.

In aggregate, these three factors – lower production costs, greater organic reach, and higher conversion rates – create a powerful synergy that systematically reduces CAC and enhances the overall return on investment (ROI) of marketing campaigns.

Despite its substantial benefits, a strategic approach to UGC requires a clear-eyed assessment of its potential limitations and risks. A failure to manage these aspects can undermine brand equity and marketing effectiveness.

The primary risk associated with UGC is the lack of control over quality and brand alignment. Unlike professionally produced content, UGC can vary wildly in its aesthetic quality, messaging, and relevance. Poorly lit photos, irrelevant content, or posts that do not reflect the brand’s desired image can detract from the overall brand perception if featured prominently [14]. To mitigate this, brands must implement a robust curation process. Instead of simply reposting all UGC, they should select content that meets specific quality standards and aligns with their brand identity. Establishing clear guidelines for user campaigns can also help steer the content in the desired direction.

The very authenticity that makes UGC valuable also means that brands cannot control the narrative. Negative reviews, critical comments, or unflattering user photos can spread just as quickly as positive ones. A single viral negative post can damage a brand’s reputation and require significant effort to counter [2]. The mitigation strategy here lies in proactive community management. Brands must actively monitor social channels for mentions and negative UGC. Responding promptly, transparently, and helpfully to criticism can turn a negative experience into a demonstration of excellent customer service. It also shows that the brand is listening and values feedback.

As noted previously, UGC may not be the most effective content type in all situations. For complex, high-involvement, or luxury purchases, consumers may prioritise expert opinions, detailed specifications, and professionally produced content that conveys a sense of prestige and quality [6]. In these contexts, over-reliance on amateur UGC could actually undermine the brand's perceived value. A balanced strategy is essential. For a luxury car brand, a professional, cinematic video (FGC) might be crucial for building desire, while UGC of owners enjoying road trips can build community and provide authentic lifestyle validation. The key is to understand the customer journey and deploy the right type of content at the right stage.

Using UGC created by others carries legal and ethical responsibilities. Brands must obtain explicit permission from the original creator before reposting their content for commercial purposes. Failing to do so can lead to copyright infringement claims and reputational backlash. Clear rights-request processes and attribution practices are essential for building trust with the user community and operating ethically.

This comprehensive analysis of academic literature and industry practice confirms that user-generated content (UGC) plays an indispensable and increasingly vital role in modern digital marketing. Its power lies in its ability to foster genuine human connection in an otherwise commercialised digital space. By leveraging authentic voices and experiences, brands can build deeper trust, stimulate meaningful engagement, and create powerful social proof that resonates with today's discerning consumers.

The evidence strongly supports the thesis that UGC is a potent tool for reducing Customer Acquisition Cost (CAC). It achieves this through a multi-pronged economic impact: slashing content production budgets, amplifying reach organically through network effects, and boosting conversion rates by reducing purchase anxiety through peer validation. These combined efficiencies make UGC not just a creative tactic, but a strategic imperative for businesses seeking sustainable growth in competitive digital markets.

However, the effective use of UGC requires a sophisticated approach that acknowledges its limitations. A balanced strategy that synergistically combines user-generated content with professionally produced firm-generated content is crucial. This hybrid model allows brands to maintain control over their core messaging and image while harnessing the authenticity and reach of their user community.

Looking ahead, the role of UGC is set to become even more central. The rise of social commerce, where purchasing happens directly within social media platforms, will make authentic peer content an integral part of the shopping experience. The growing influence of micro- and nano-influencers – essentially professional UGC creators with highly engaged niche audiences – represents a fusion of UGC's authenticity with influencer marketing's reach. Furthermore, advancements in artificial intelligence may provide brands with powerful tools to curate, analyse, and scale UGC more effectively than ever before. In conclusion, user-generated content has evolved from a grassroots phenomenon into a foundational element of digital marketing strategy, poised to remain a key driver of brand growth and economic efficiency in the social media-driven future.

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